P/C Insurance at the Economic Crossroads:
What Today's Uncertain Times Mean for the Insurance Industry of Tomorrow

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P/C Insurance Overview & Outlook: Outline

- P/C Financial Overview & Outlook in the Post-COVID, High-Inflation Era
  - Premium Growth
  - CAT Loss Update
  - Underwriting Performance
  - Investment Market Issues
- Economic Overview & Outlook—Impacts for P/C Insurers
  - Growth, Employment, Inflation and Recession
- Inflation: Where it Is Headed & What It Means for P/C Insurers
  - Impacts on claim severities and loss ratios
  - Long-term inflation considerations
- Bank and Budget Debacles: Are there Any Impacts for P/C Insurers?
- Tort System Abuse/Social Inflation
- A Look Ahead: Trends in the P/C Competitive Environment
- Summary and Q&A

P/C Insurance Industry Financial Overview & Outlook:

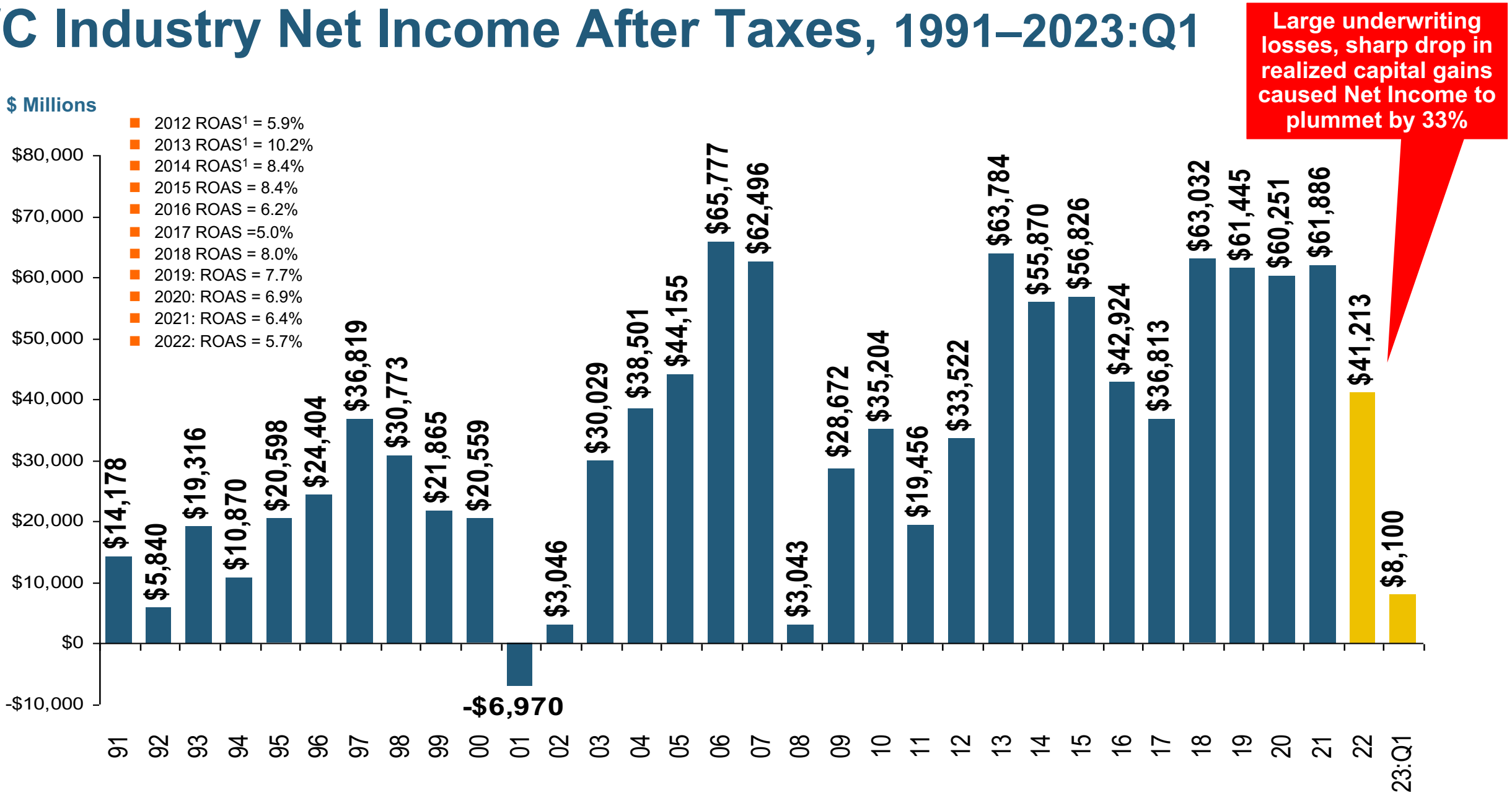
Challenges Amid Rising Inflation and Higher Interest Rates

The Current Economic Environment Presents Many Challenges for P/C Insurers

Industry Remains Strong

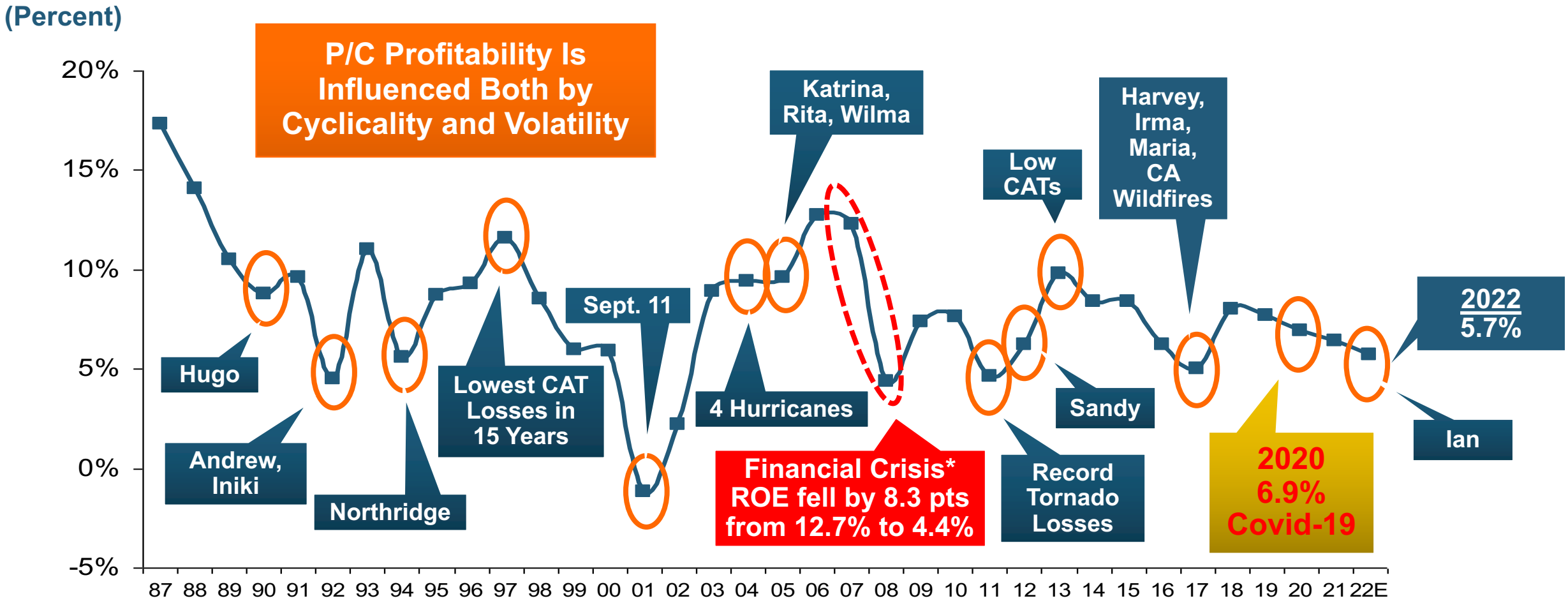
3

P/C Industry Net Income After Taxes, 1991–2023:Q1



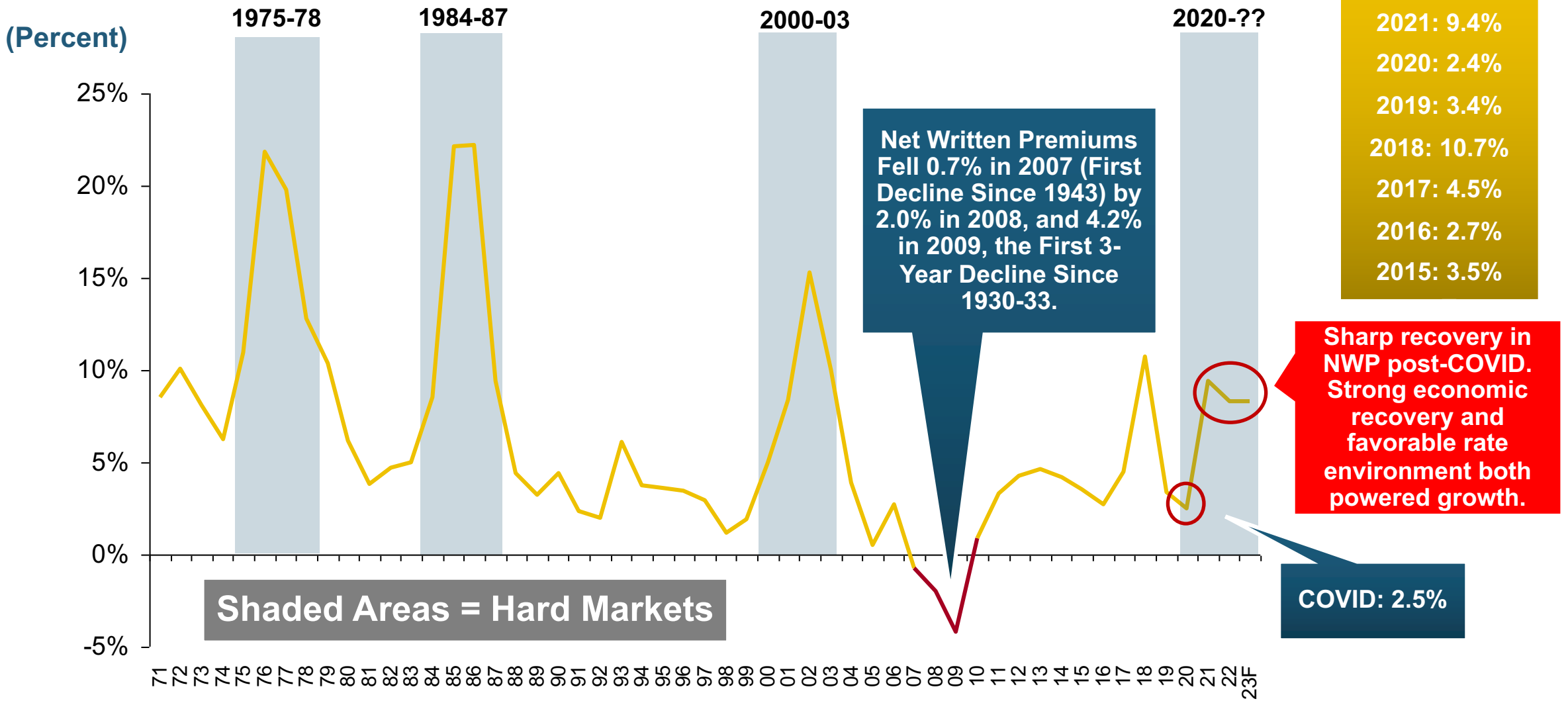
*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO, APCIA.

ROE: Property/Casualty Insurance by Major Event, 1987–2022*



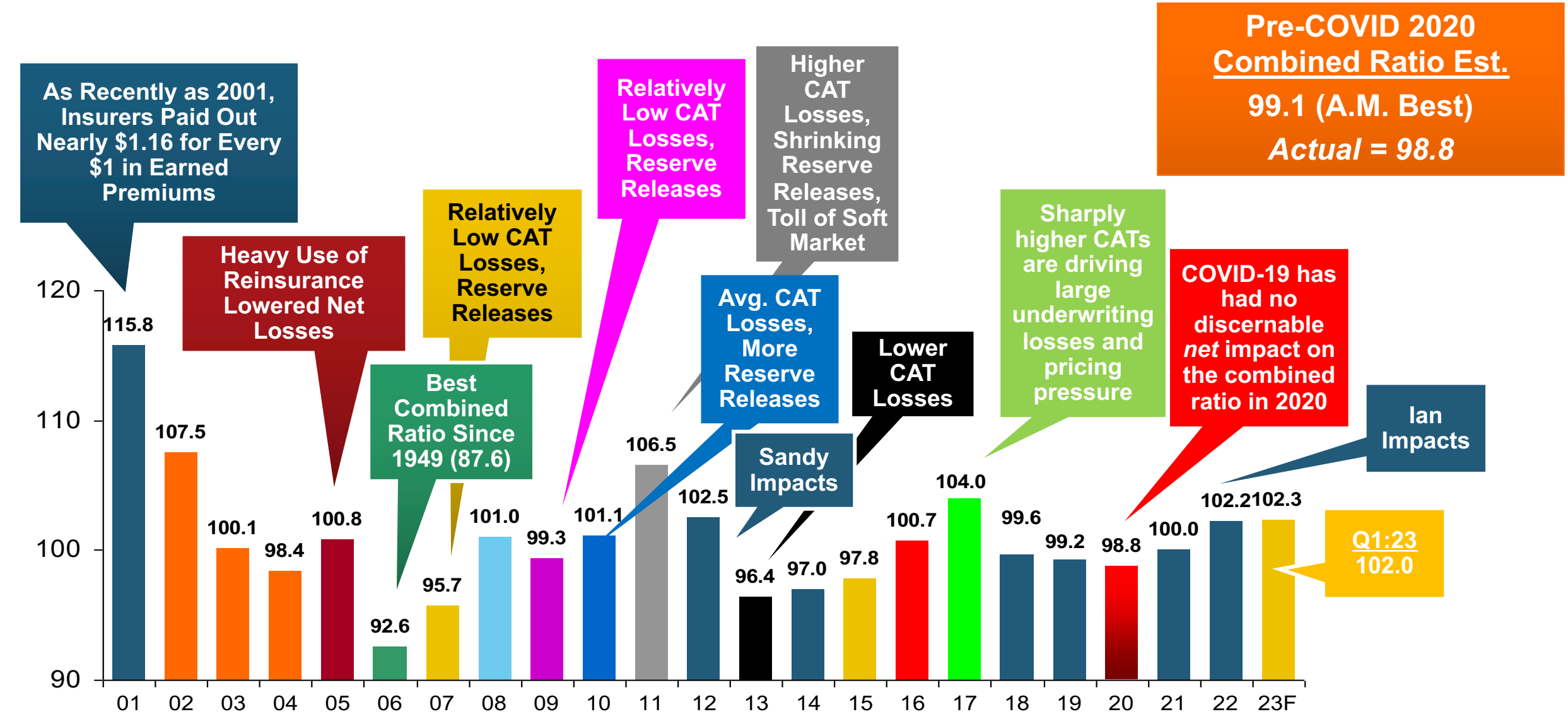
*Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: A.M. Best, ISO, *Fortune,* APCIA; USC RUM Center.

Net Written Premium Growth (All P/C Lines): Annual Change, 1971–2023F



NOTE: Shaded areas denote “hard market” periods.
Sources: A.M. Best (1971-2013, 2023F), ISO (2014-21); Risk & Uncertainty Management Center, Univ. of South Carolina

P/C Insurance Industry Combined Ratio, 2001–2023F*



*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
Sources: A.M. Best, ISO (2014-2024F).

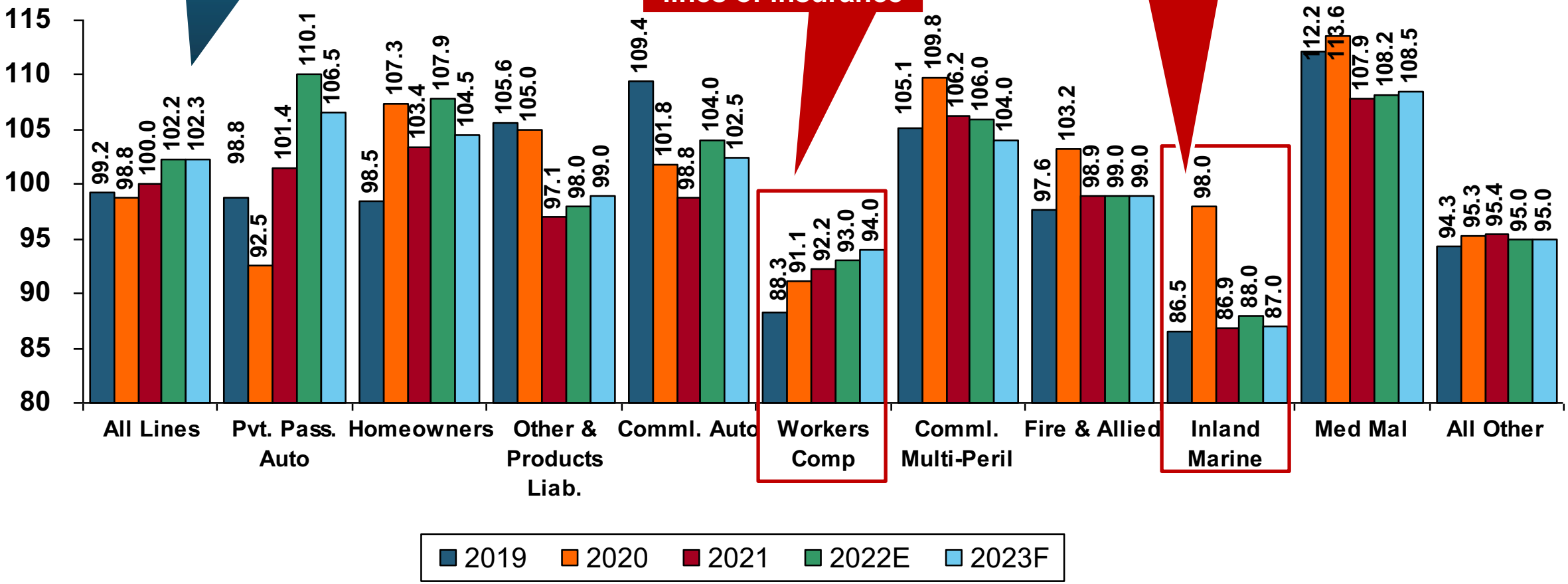
Combined Ratios by Line: 2019 – 2023F

High CAT losses and inflation are pushing up combined ratios

WC is among the best performing lines of insurance

Inland Marine is also among the best performing lines of insurance

Inflation will continue to pressure combined ratios in 2023

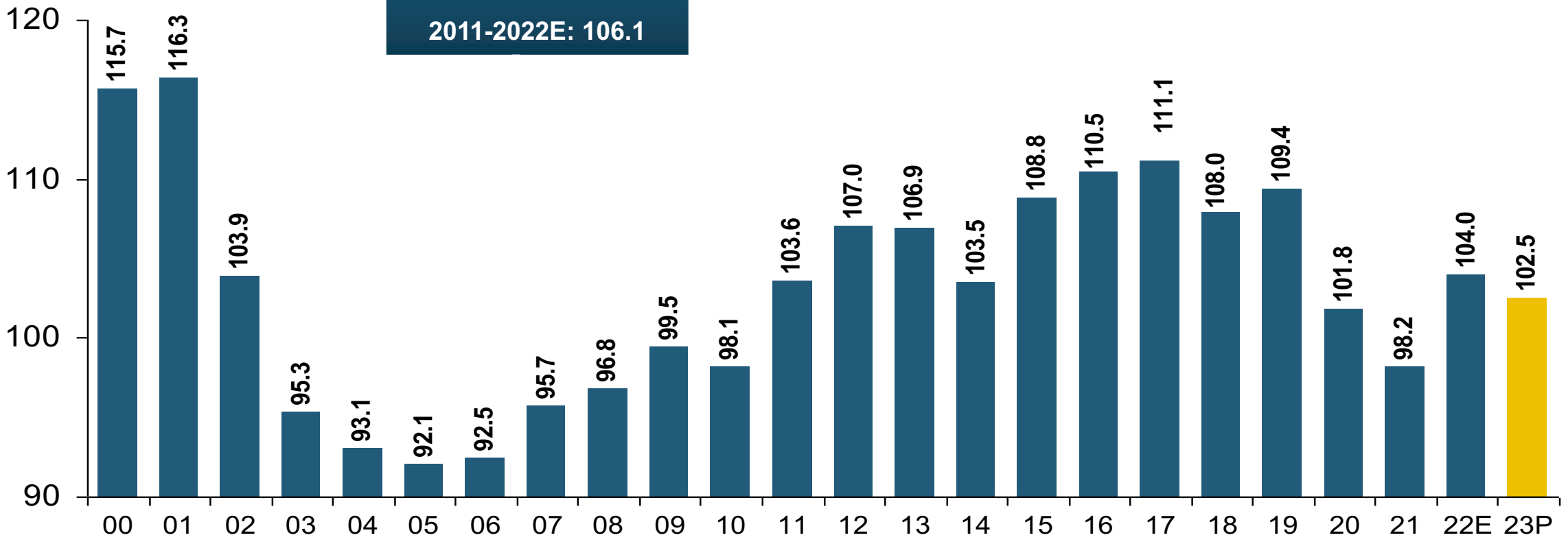


Source: A.M. Best *Review & Preview* (2023 forecasts as of Mar. 2023); Univ. of South Carolina, Risk and Uncertainty Management Center.

Commercial Auto Combined Ratio, 2000–2022

Commercial Auto has been one of the most challenging lines for P/C insured since 2011

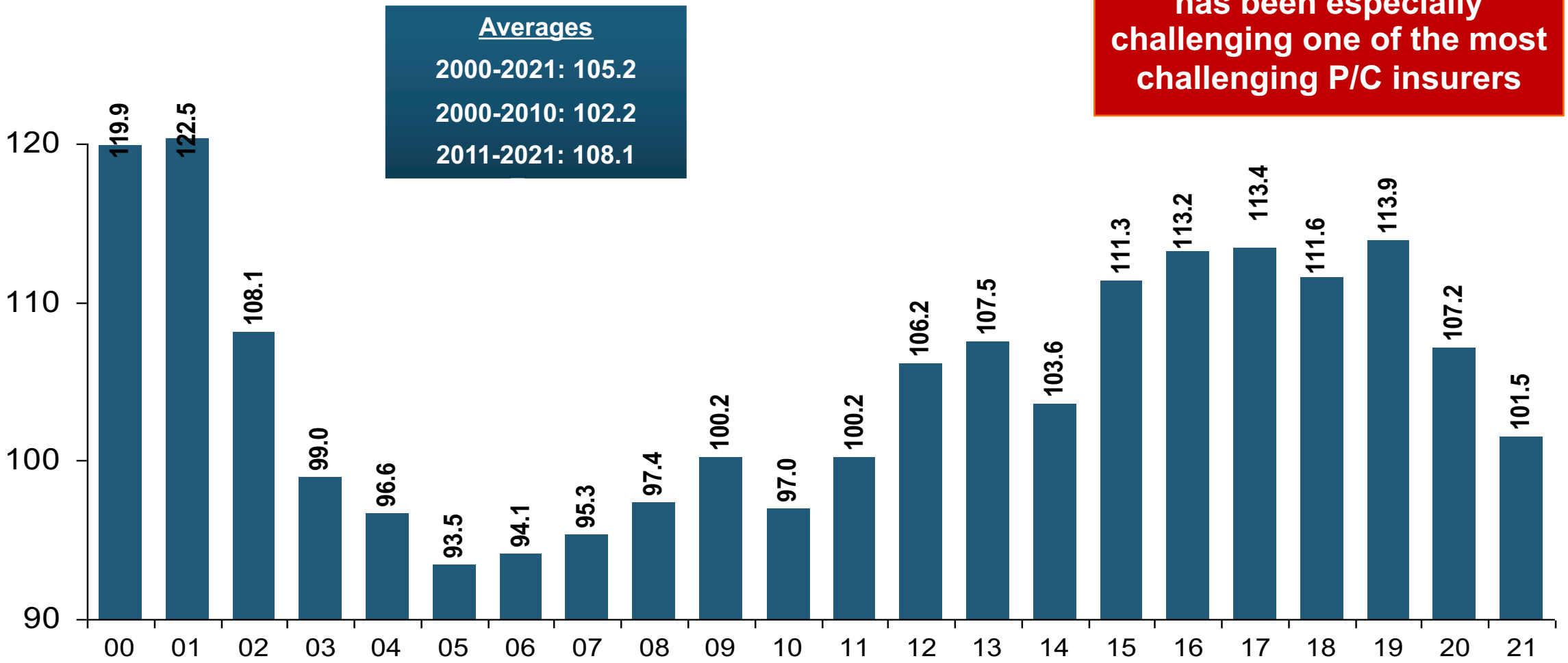
Averages
2000-2022E: 103.1
2000-2010: 99.8
2011-2022E: 106.1



Sources: S&P Global Market Intelligence (2000-2021). A.M. Best (2022E-2023P).

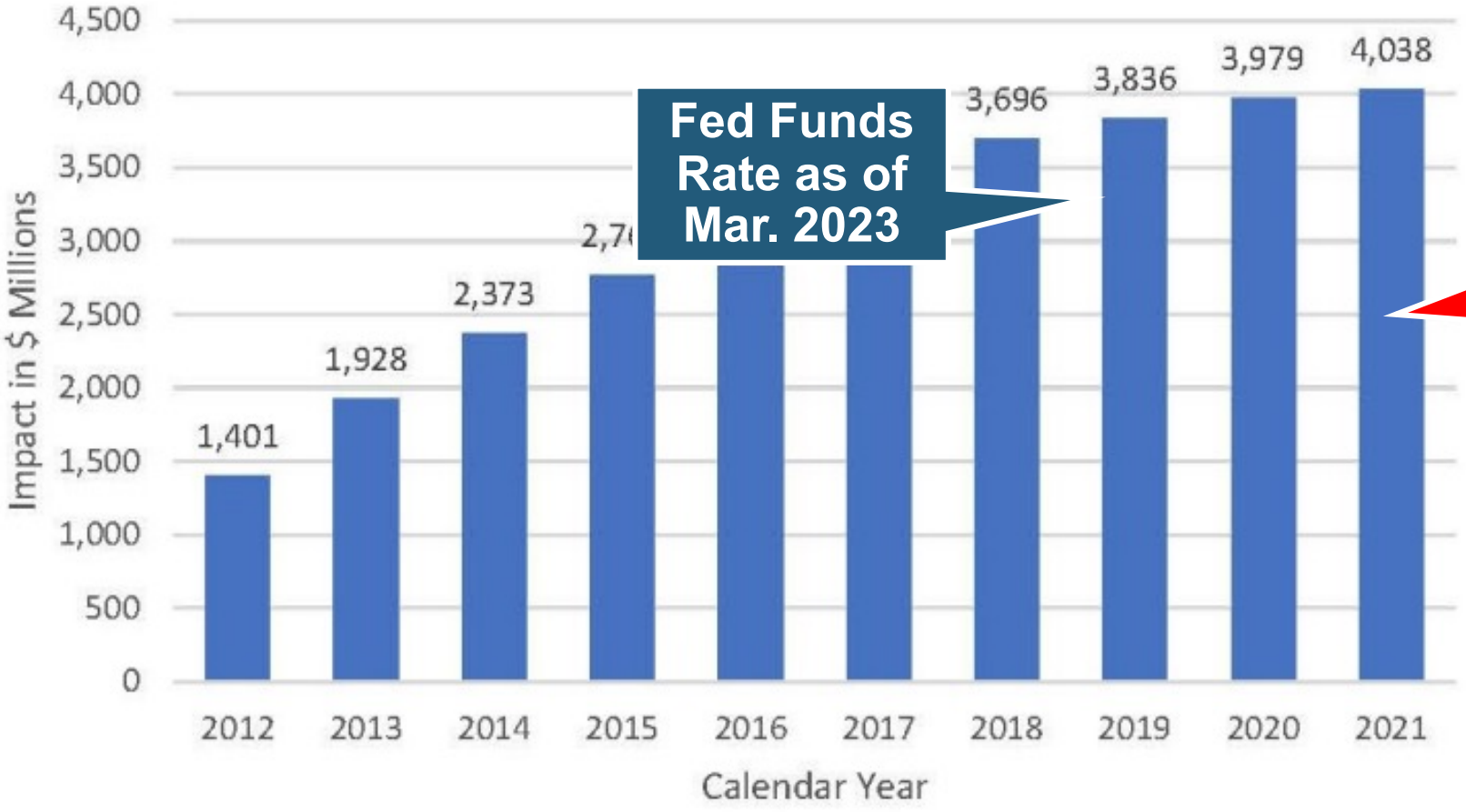
Commercial Auto *Liability* Combined Ratio, 2000–2021

Commercial Auto Liability has been especially challenging one of the most challenging P/C insurers



Sources: S&P Global Market Intelligence (2000-2021).

Estimate of Social Inflation, Commercial Auto Liability, 2012-2021



Legal system abuse is estimated to cost commercial auto insurers billions each year, which combined ratio and rates high

Source: CAS Research Paper, Social Inflation and Loss Development—An Update (2023) by Jim Lynch, FCAS and Dave Moore, FCAS.

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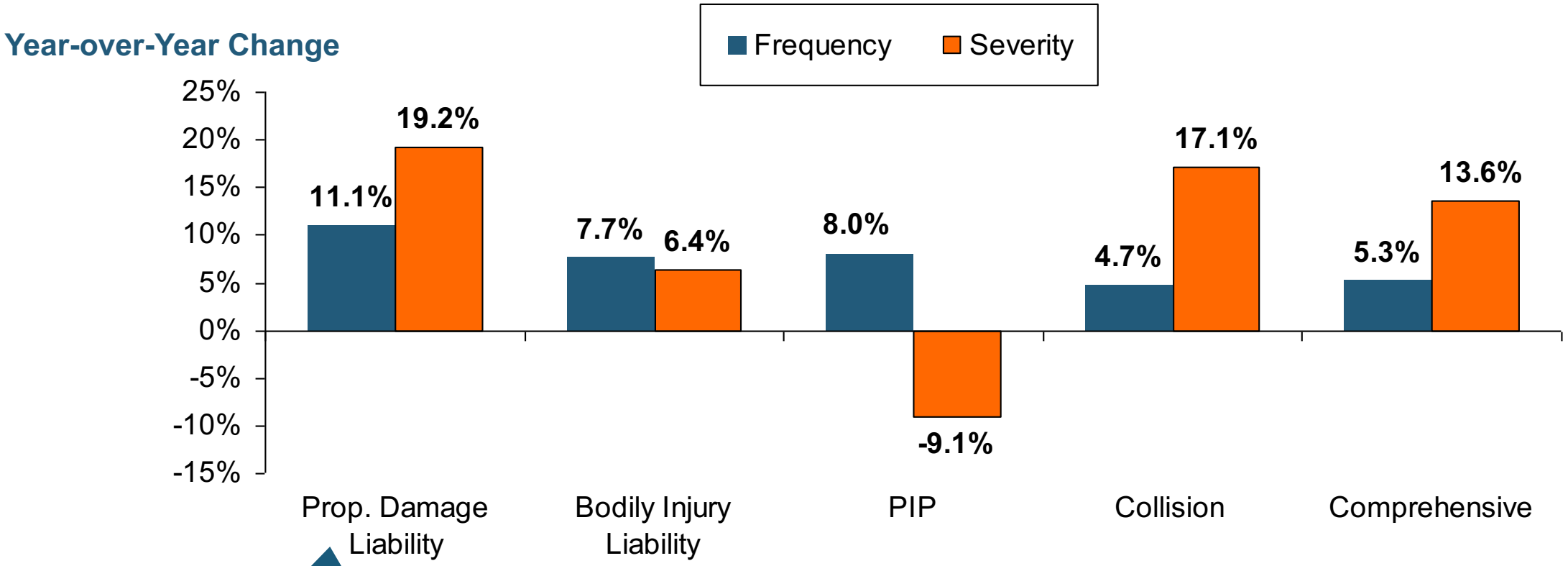
Private Passenger Auto Frequency & Severity Trends

Frequency, Severity and Loss Ratio Trends Are Adverse

Inflation is a Major Driver

Personal Auto Claim Frequency Declines Have Ended and Are in Full Reversal, Severity Rise Continues: 4 Qtrs. Ending Q4 2022



Recall: PD Liability claims were down 32.2% for the 4 qtrs. ending Q1 2021

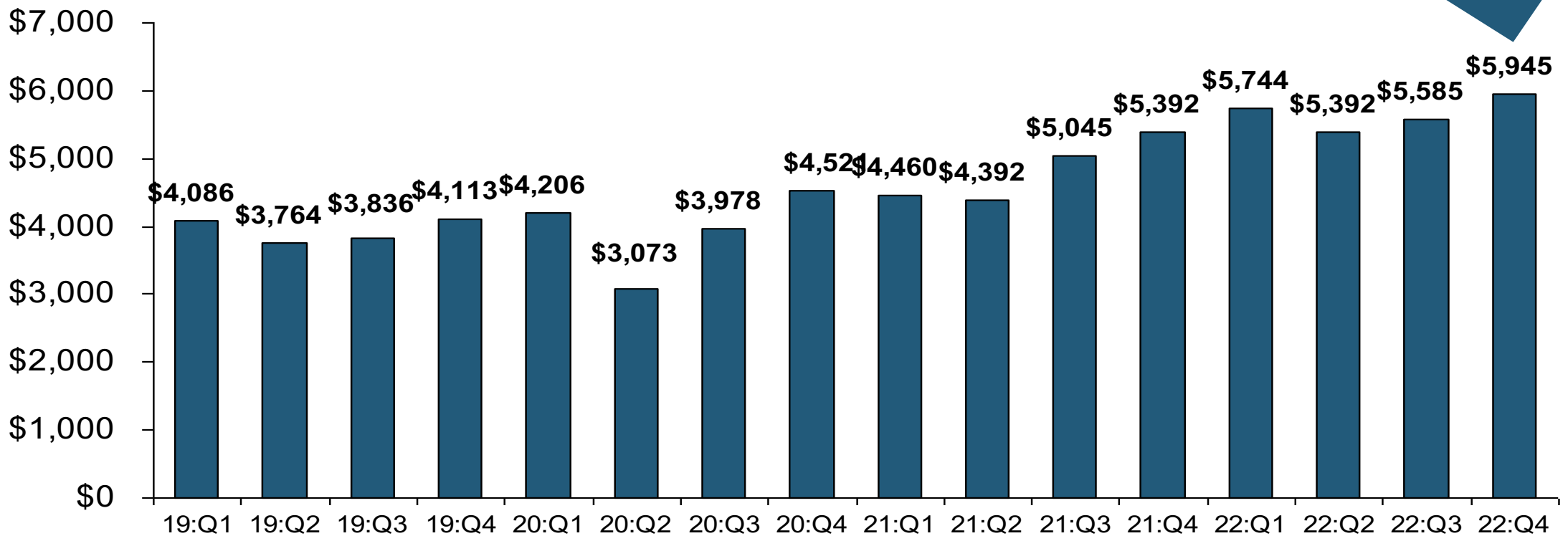
Auto Claim Frequencies Fell Sharply During the Pandemic, though Claim Severities Rose Materially

Source: ISO/PCI *Fast Track* data for Q4 2022; Risk and Uncertainty Management Center, Univ. of South Carolina.

Collision Claim Severity: Rising to New Record Highs

Average Loss, 2018:Q1 through 2022:Q4

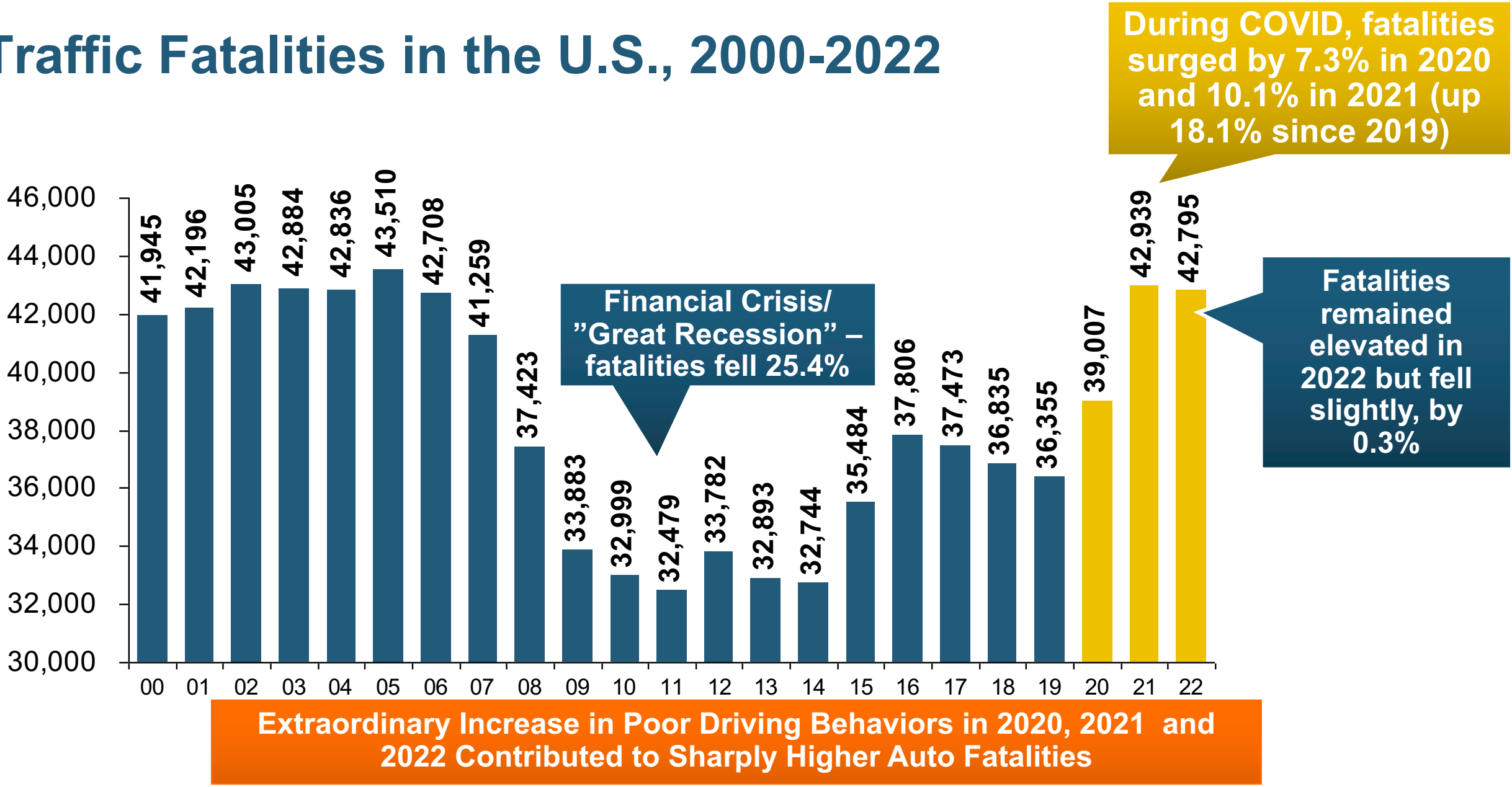
Collision claim severity reached a record high in 2022:Q4, up 41.3% from 2020:Q1



Severities Are Up Sharply—Inflation Is a Major Factor

Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Traffic Fatalities in the U.S., 2000-2022



*2022 figure is annualized based on actual of 31,785 through Sept. 30 (a decline of 0.2% from the same period in 2021).

Source: Insurance Institute for Highway Safety and Highway Loss Data Institute: https://www.iihs.org/iihs/topics/t/general-statistics/fatalityfacts/overview-of-fatality-facts and NHTSA: https://www.nhtsa.gov/press-releases/traffic-crash-death-estimates-2022; Risk and Uncertainty Management Center, University of South Carolina.

Commercial Lines Growth & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

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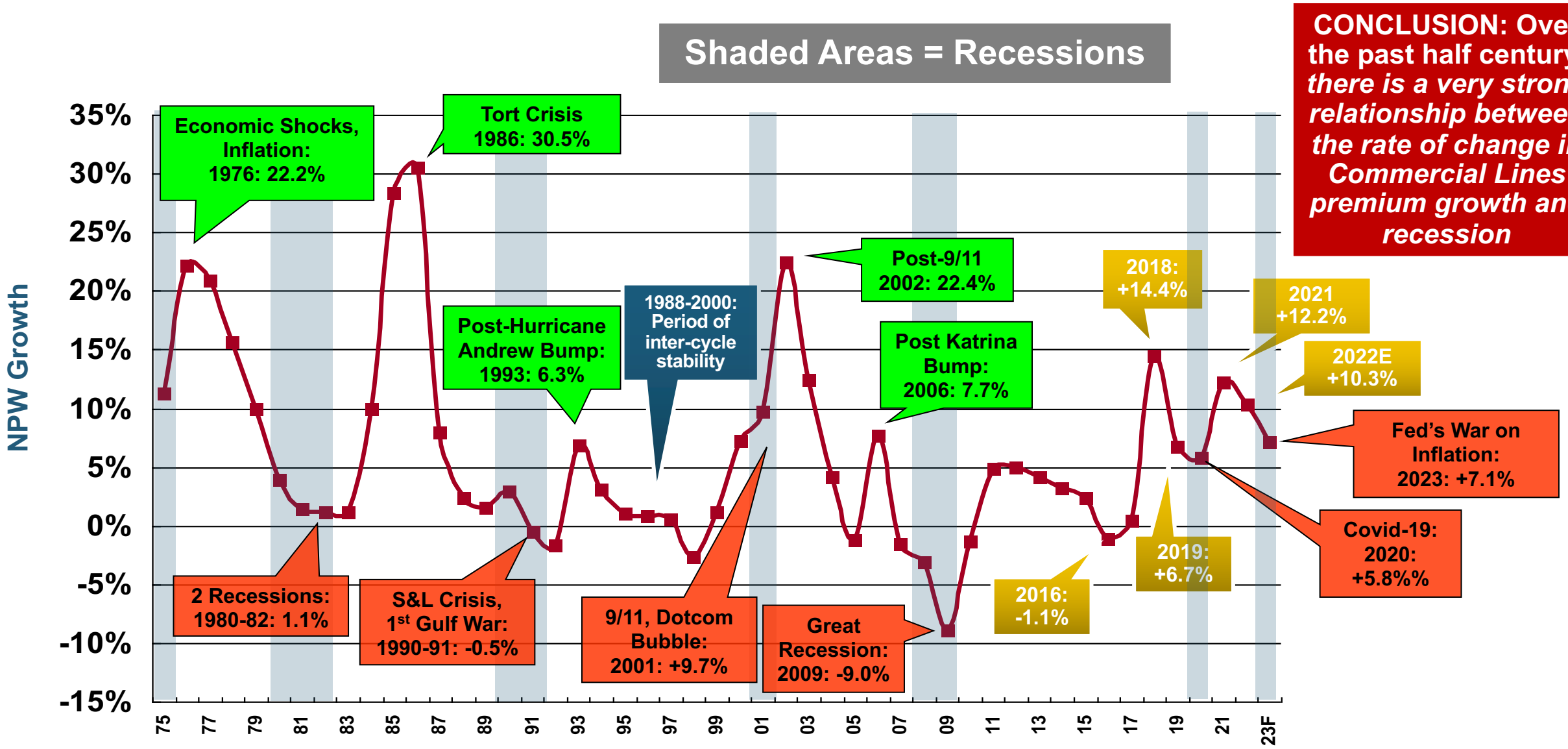
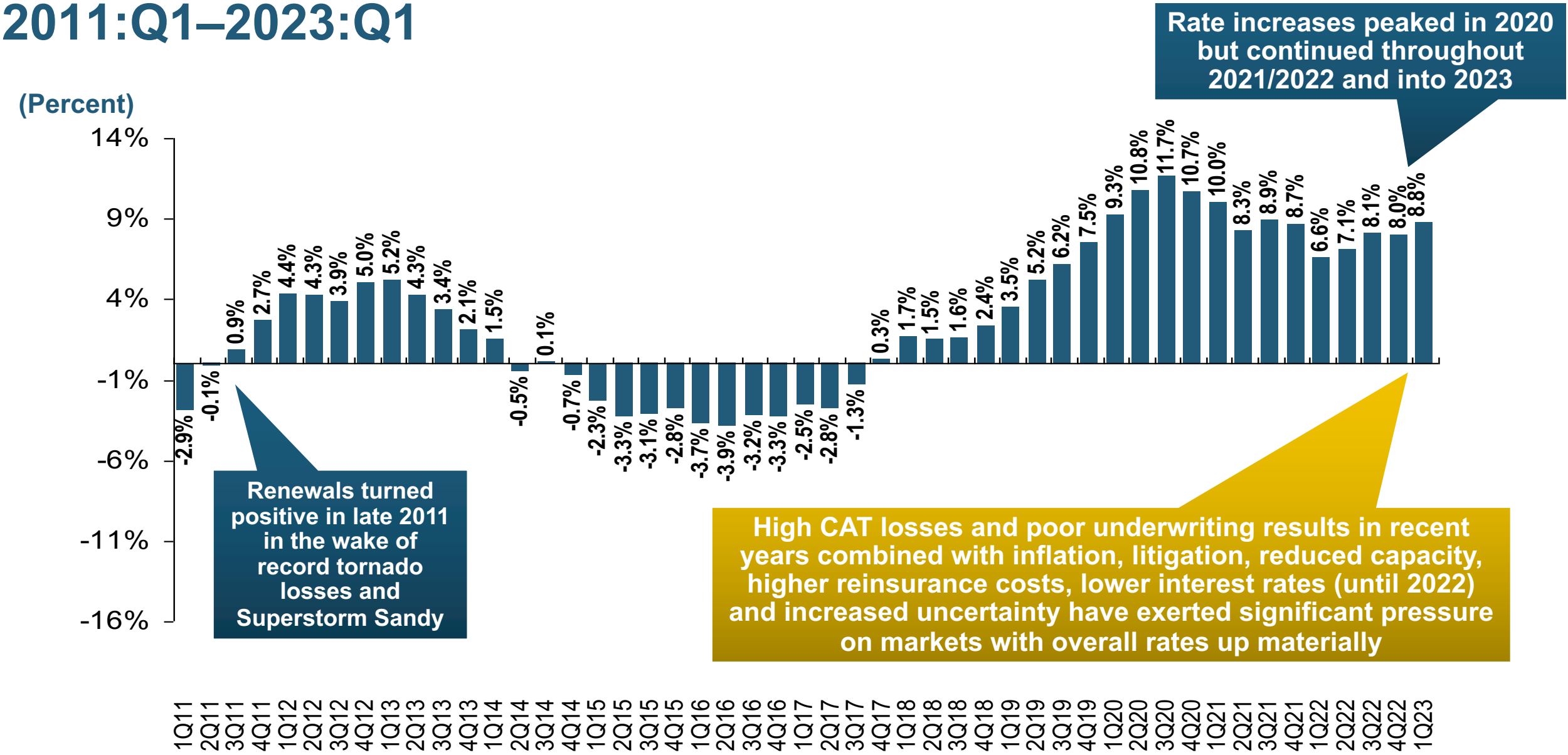
Commercial Lines NPW Premium Growth: 1975 – 2023F



Note: Data include state funds beginning in 1998. . Recession dates (1975–2022) from NBER: https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions
Source: A.M. Best (2022E-23P); ISO; APCIA; Univ. of South Carolina Center for Risk and Uncertainty Management Center.

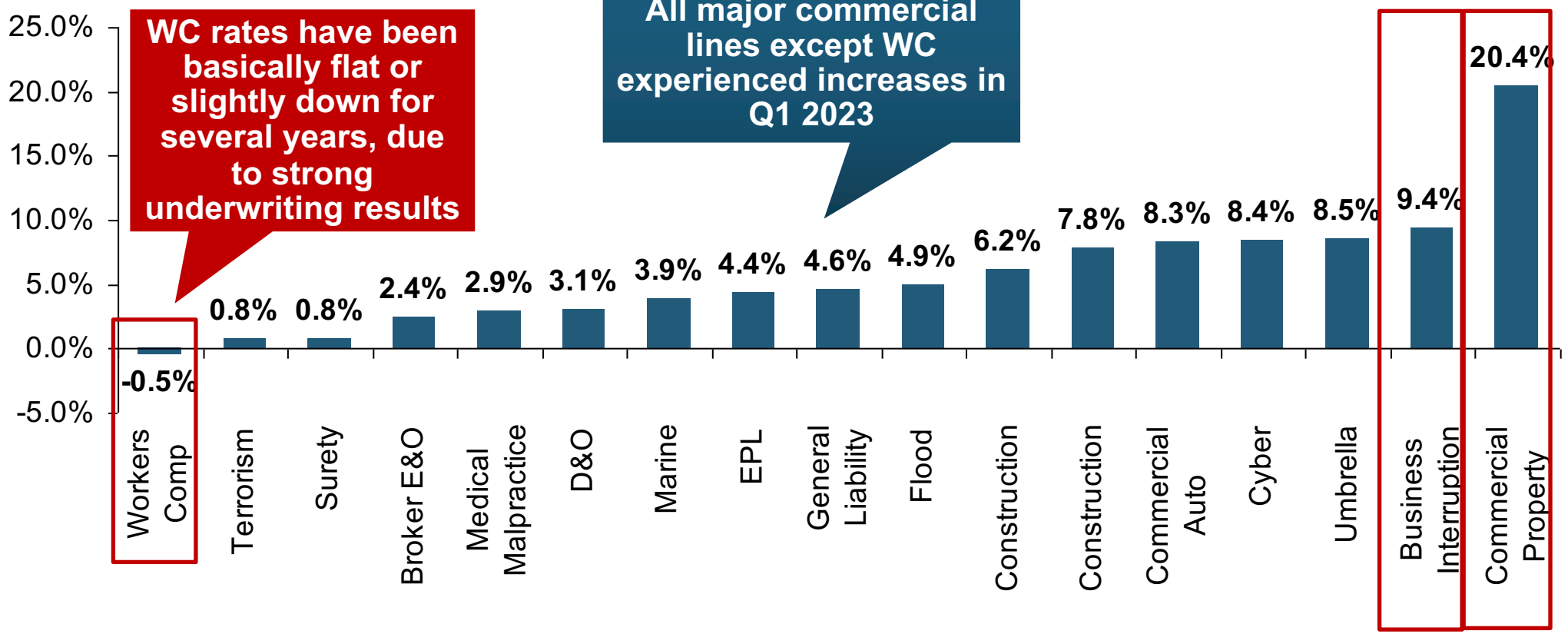
CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2023:Q1



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2023:Q1

(Percent Change)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

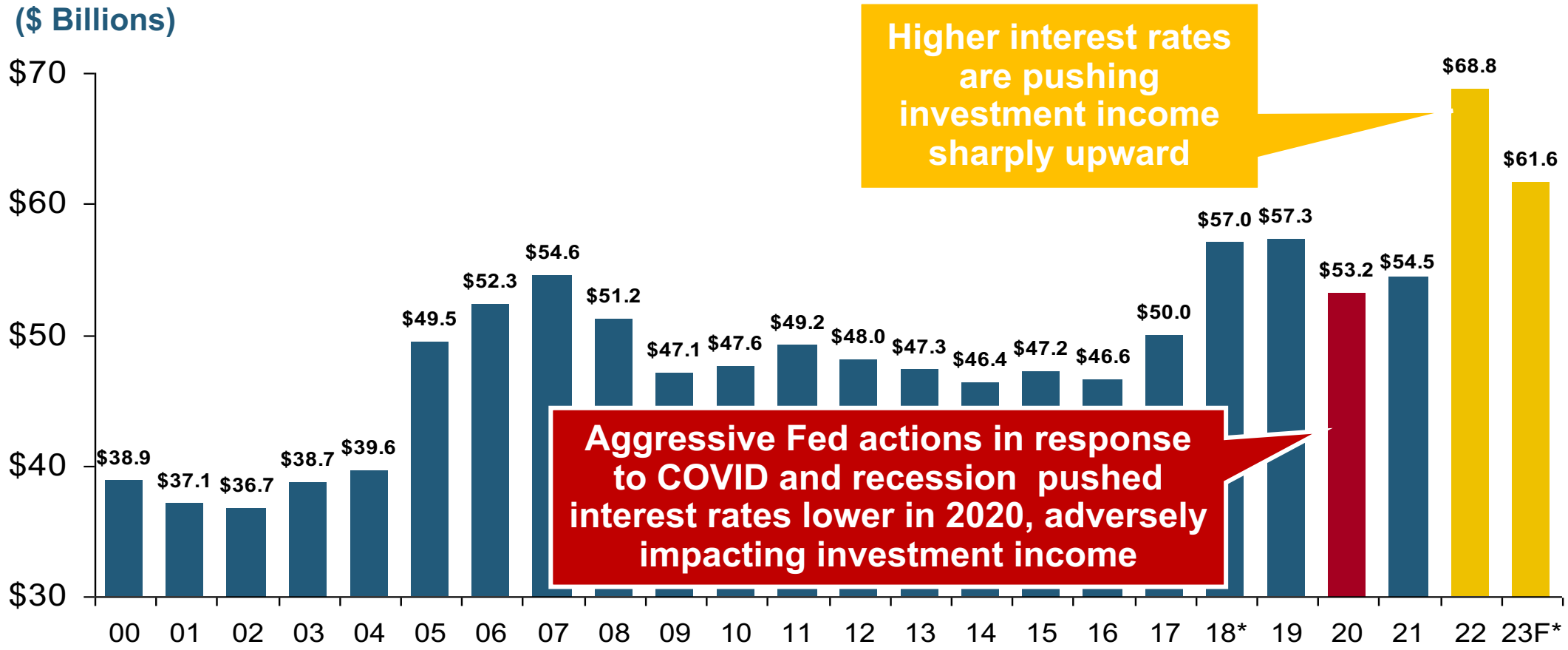
Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

Investments:
Wall Steet's Wild Ride Continues

Investment Performance Is a Key Driver of Insurer Profitability

How Has the Hawkish Fed Impacted Insurer Portfolios?

Property/Casualty Insurance Industry Investment Income: 2000–2023F*

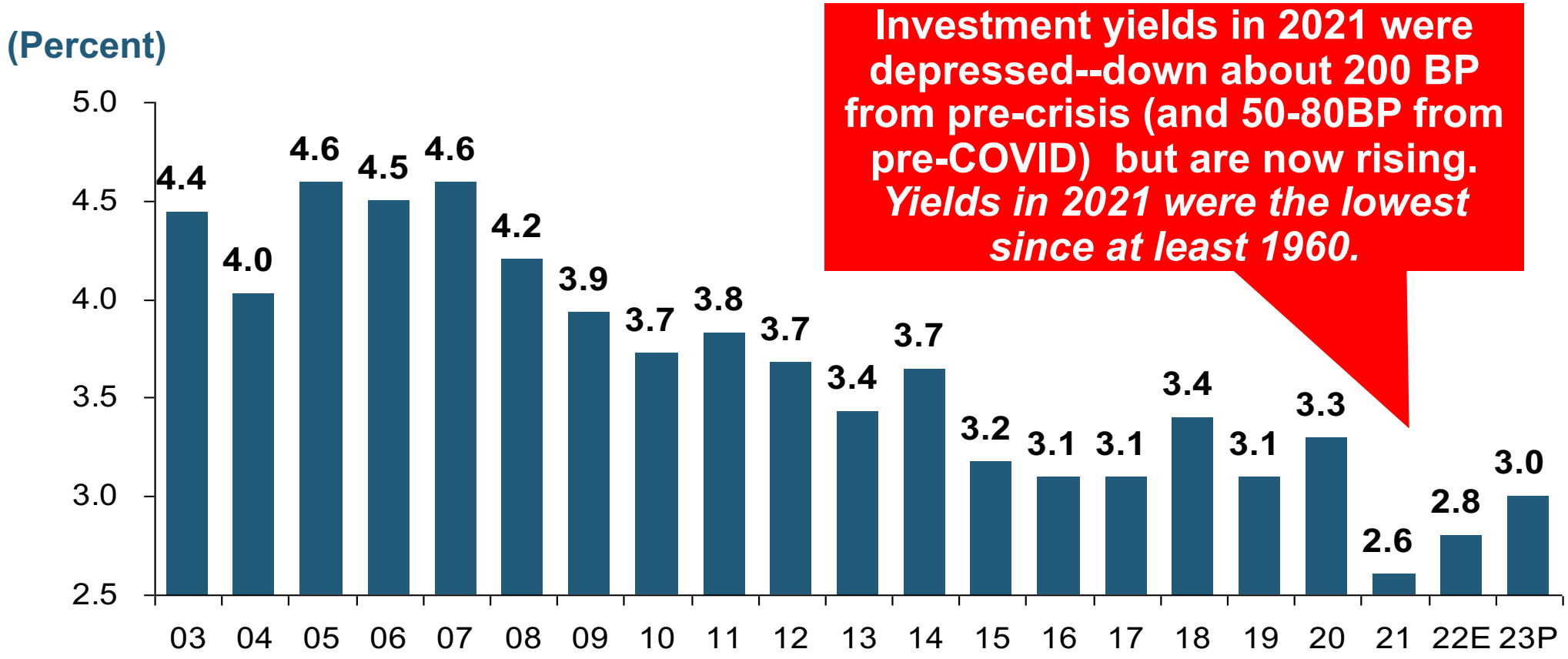


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates during COVID drove investment income down once again. Fed rate hikes in 2022-23 are reversing this trend.

*2023 is annualized figure based on Q1 actual of $15.4B. 2018-19 figures are distorted by provisions of the TCJA of 2017. Increase reflects such items as dividends from foreign subsidiaries.

[1] Investment gains consist primarily of interest and stock dividends. Sources: A.M. Best Review & Preview (March 2023); ISO; University of South Carolina, Center for Risk and Uncertainty Management.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2023P



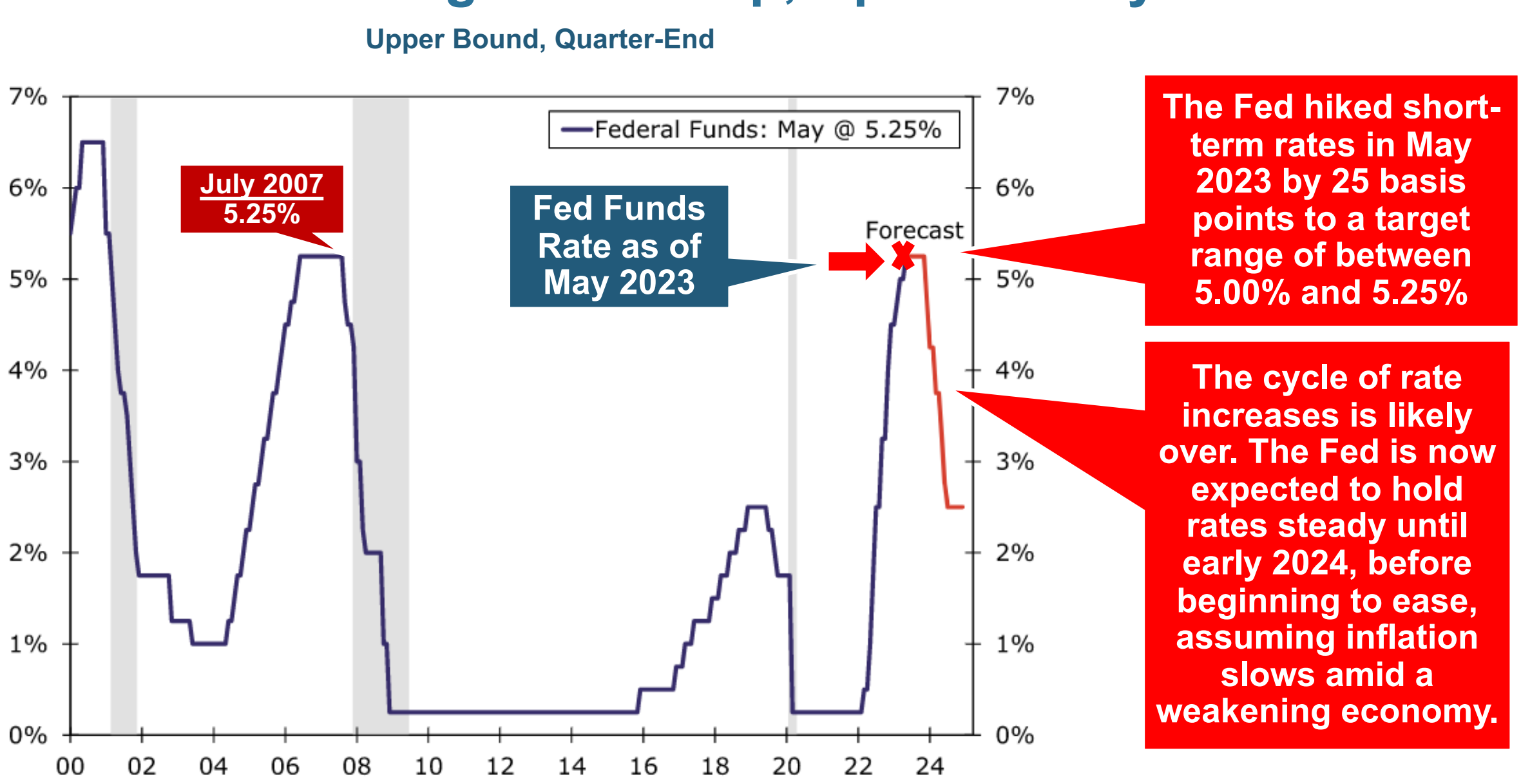
Investment yields in 2021 were depressed--down about 200 BP from pre-crisis (and 50-80BP from pre-COVID) but are now rising. *Yields in 2021 were the lowest since at least 1960.*

The yield on invested assets remains depressed relative to pre-financial crisis and pre-COVID yields. Fed rate hikes in 2022-23 are lifting yields and investment income.

Average: 1960-2019 = 4.9%
Low: 2.8% (1961)
High: 8.2% (1984/85)

Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020-21 data from the APCIA. 2022^{E}-23P from A.M. Best Review & Preview (March 2023). Risk and Uncertainty Management Center, Univ. of South Carolina.

Federal Funds Target Rate: Up, Up and Away!

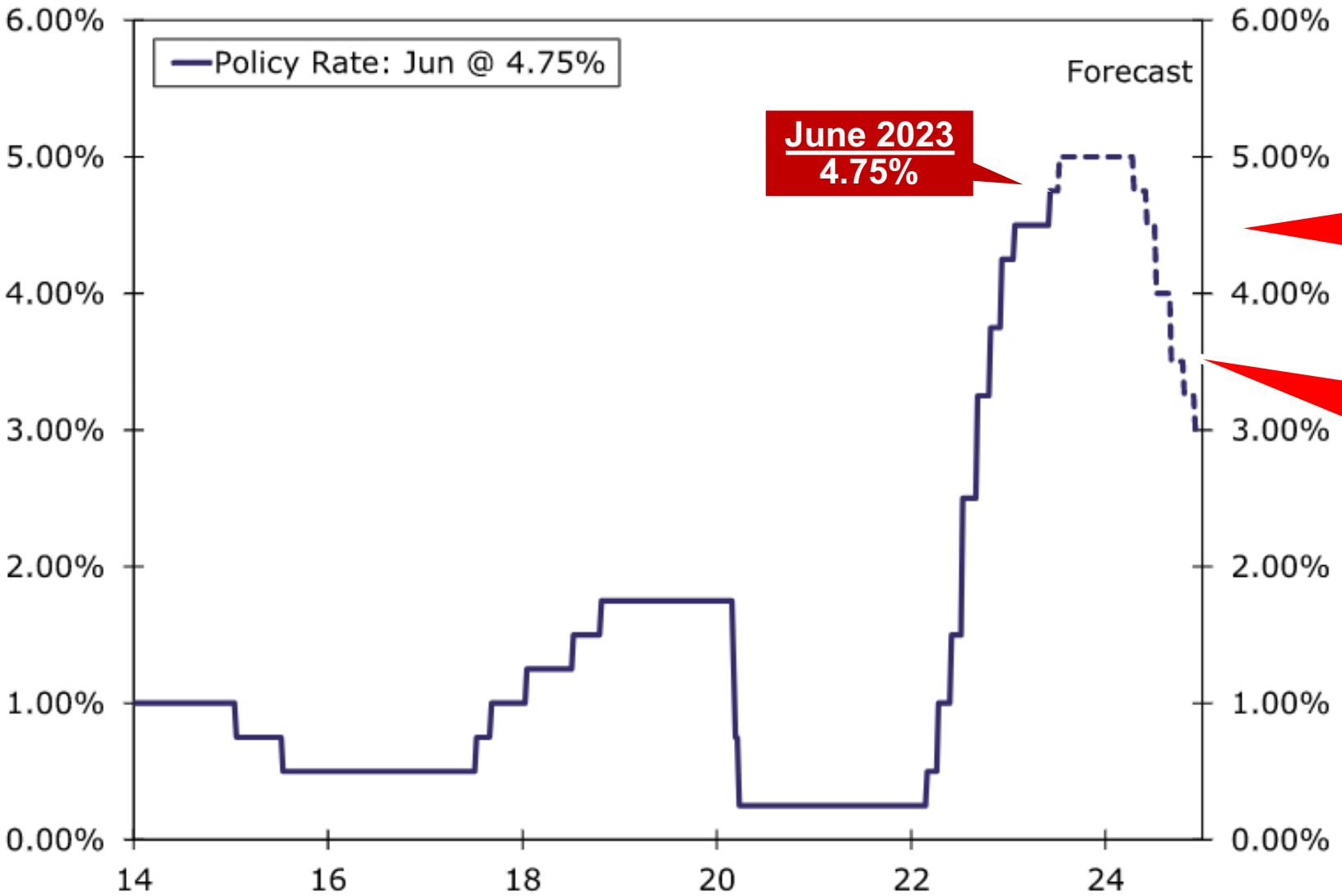


The Fed hiked short-term rates in May 2023 by 25 basis points to a target range of between 5.00% and 5.25%

The cycle of rate increases is likely over. The Fed is now expected to hold rates steady until early 2024, before beginning to ease, assuming inflation slows amid a weakening economy.

Source: Federal Reserve Board and Wells Fargo Economics (6/23); Risk and Uncertainty Management Center, University of South Carolina.

Bank of Canada Policy Rate

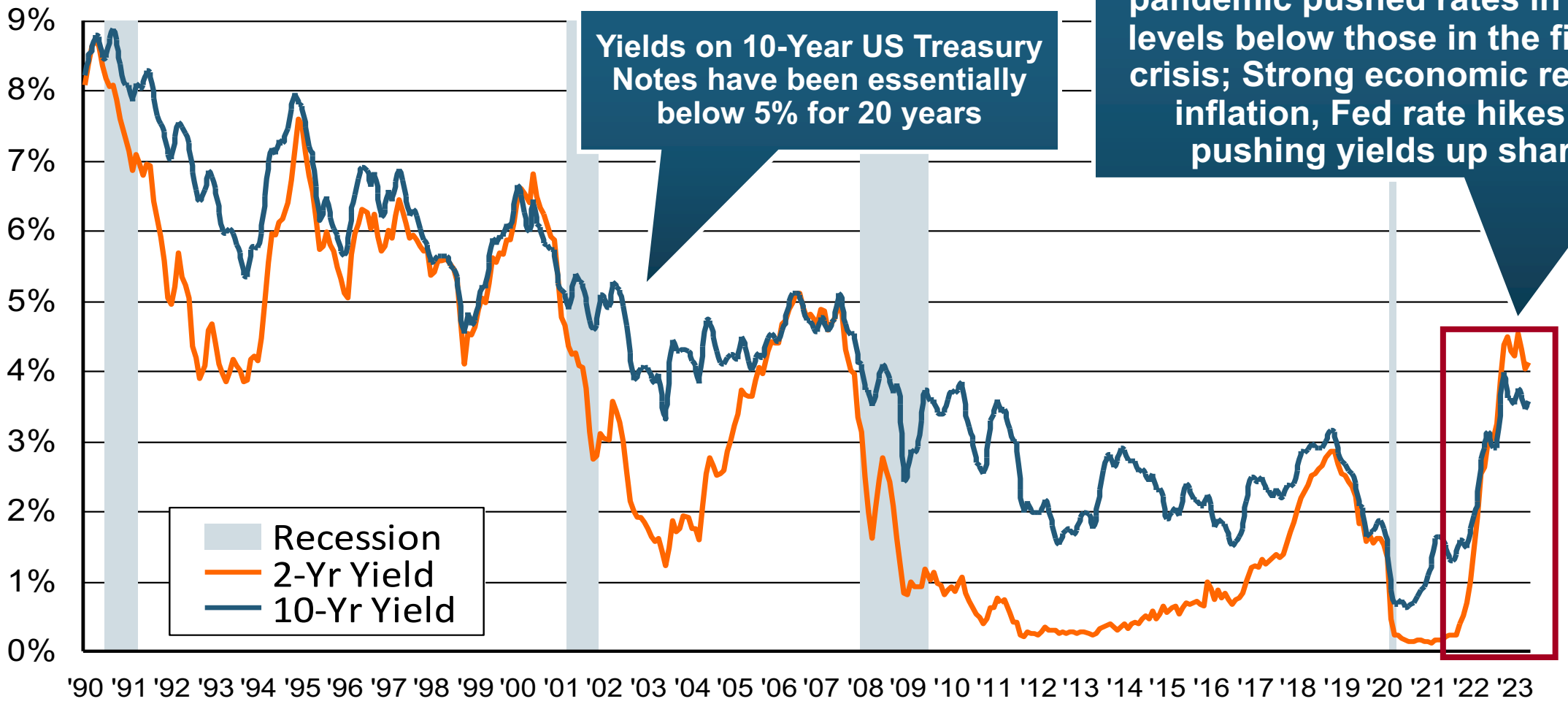


The Bank of Canada "surprised" markets this month with a 25 basis points increase to 4.75%, spurred by stubborn inflation and a strong labor market

The BoC is likely to hike once more in the current cycle, to 5.00% in July, before beginning to ease in Q2 2024

Source: Bloomberg Finance LP and Wells Fargo Economics (6/23); Risk and Uncertainty Management Center, University of South Carolina.

US Treasury Security Yields: A Long Downward Trend, 1990–2023*

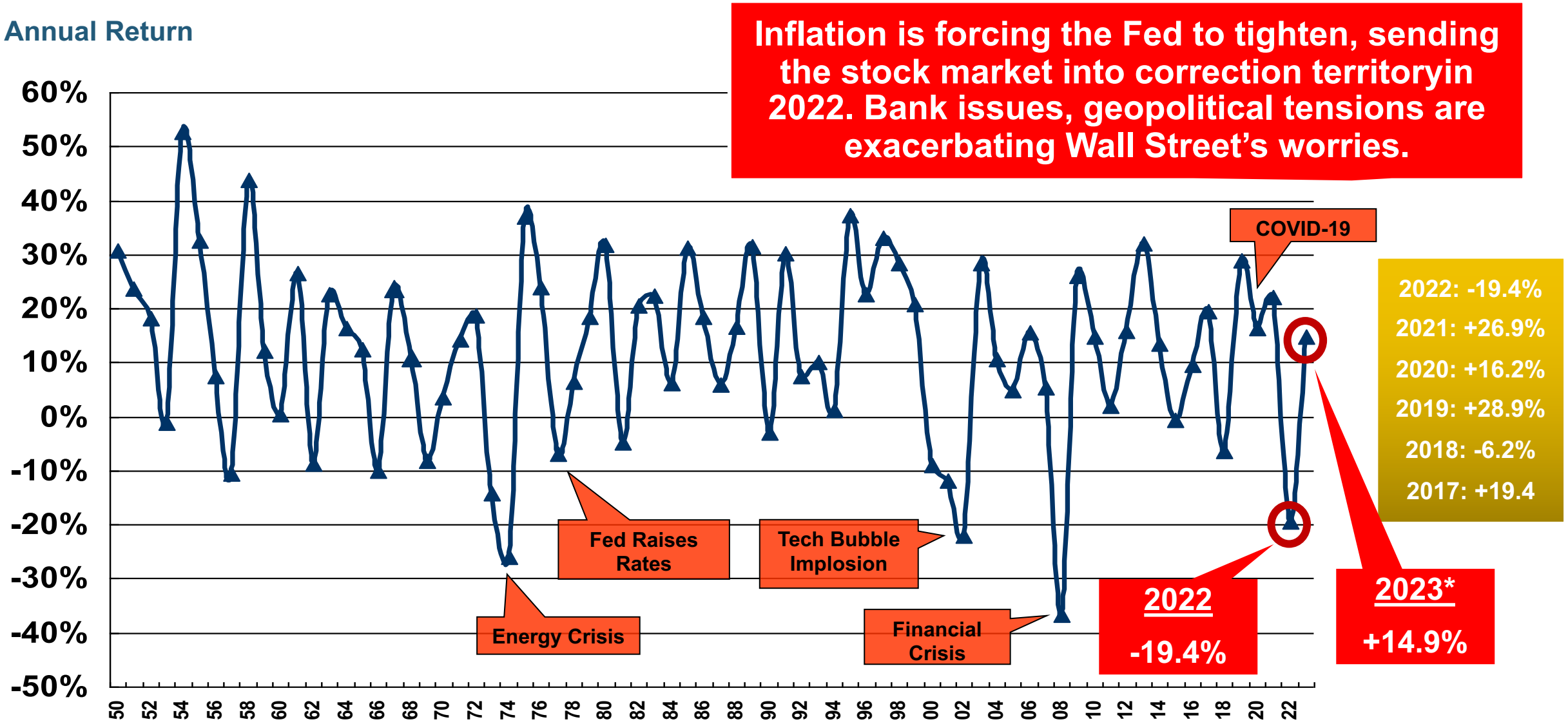


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, Fed rate hikes should over time provide a modest boost to P/C insurer portfolio yields

*Monthly, constant maturity, nominal rates, through May 2023.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, University of South Carolina.

S&P 500 Index Returns, 1950–2023*



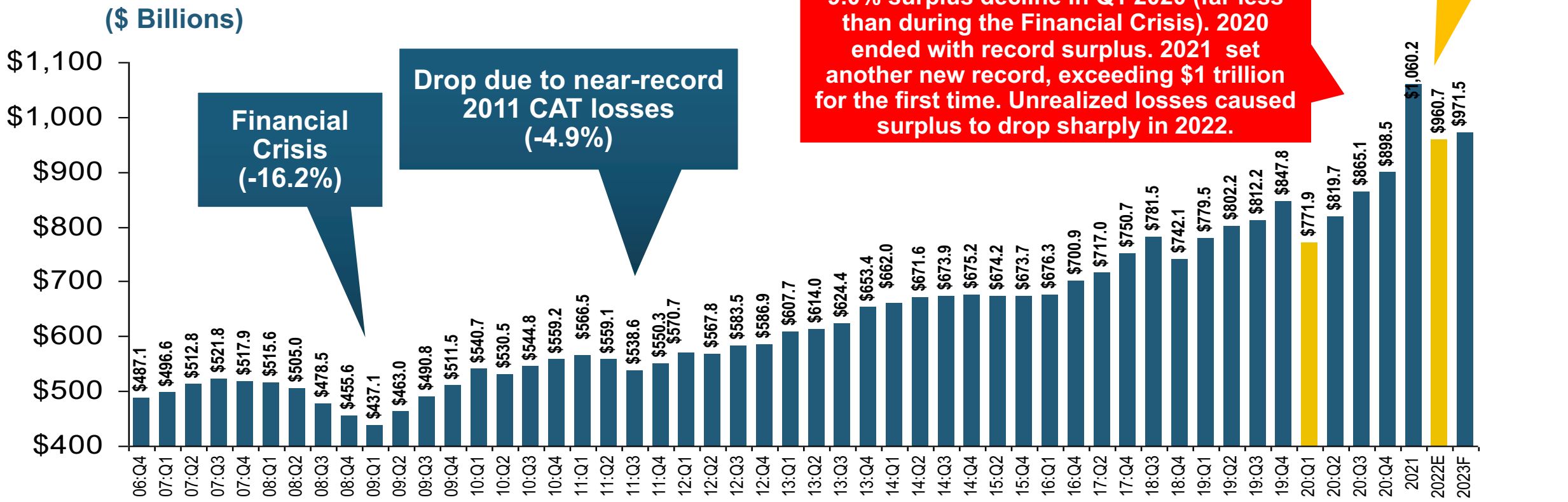
*Through June 19, 2023.
Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html;
Center for Risk and Uncertainty Management, University of South Carolina.

Capital and Capacity

P/C Insurance: Over or Under Capitalized?

Is the Industry Creating Economic Value?

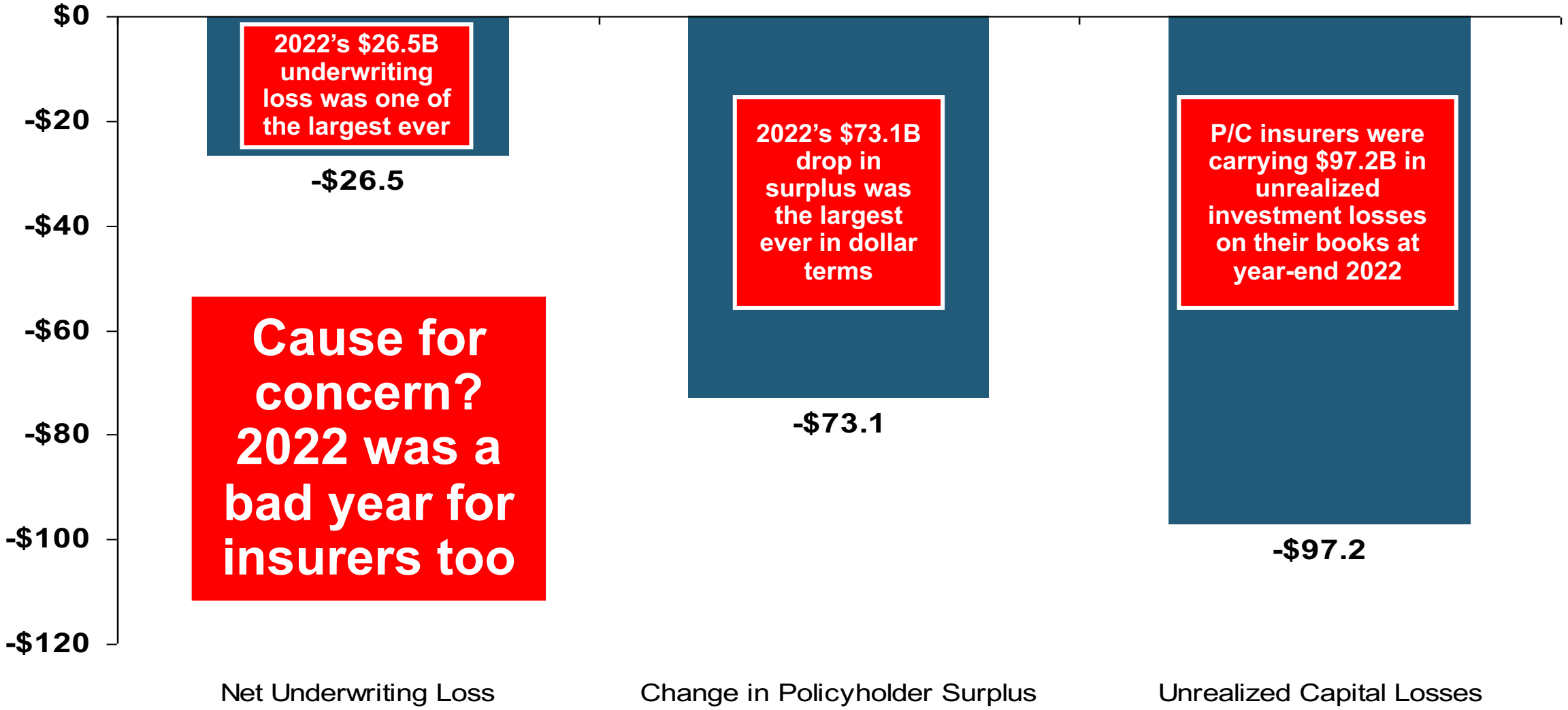
Policyholder Surplus (Capacity), 2006:Q4 – 2023F



Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

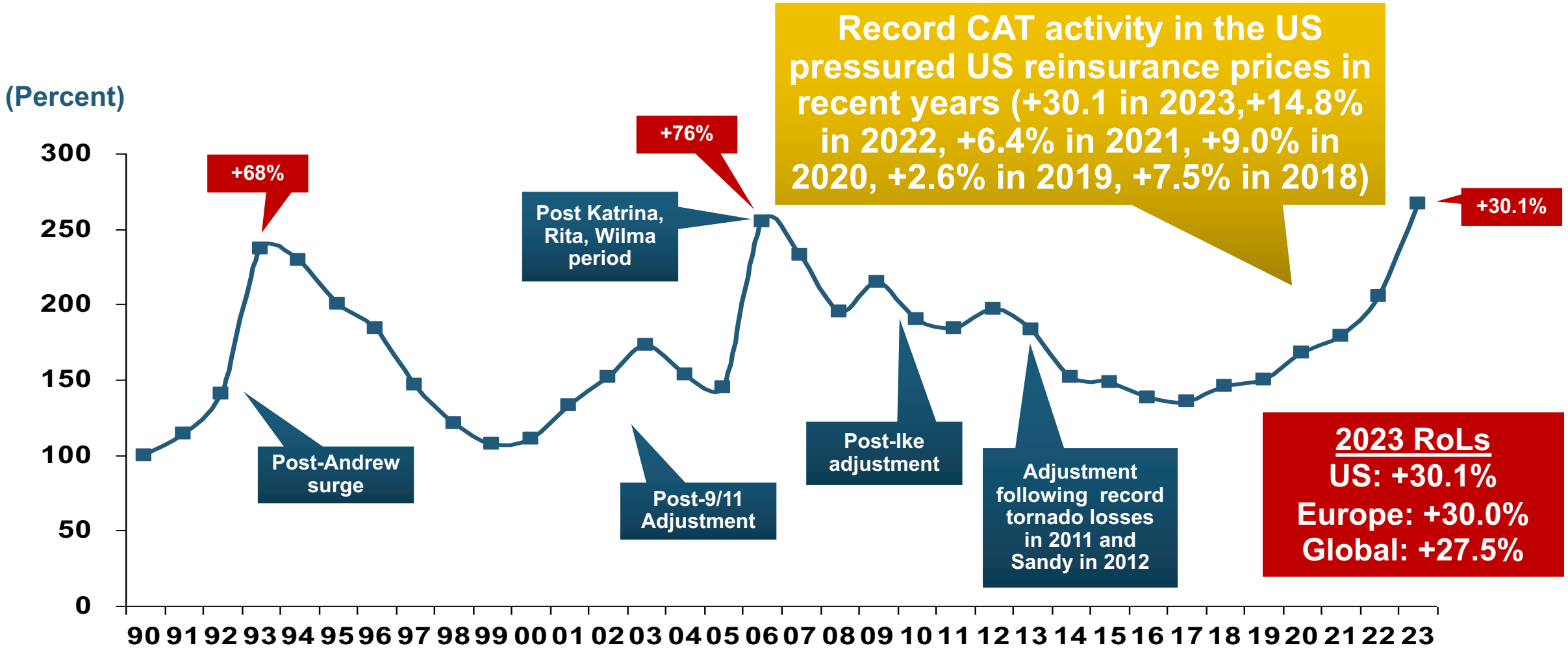
Sources: ISO, A.M .Best, NAIC. Risk and Uncertainty Management Center, University of South Carolina.

Change in in Key P/C Financial Metrics in 2022
($ Billions)



Source: A.M. Best, Verisk, S&P Global; Risk and Uncertainty Management Center, University of South Carolina.

US Property Catastrophe Rate-on-Line Index: 1990 – 2023*



US Property-CAT Reinsurance Pricing Is Sensitive to CAT Activity and Ultimately Impacts Primary Insurance Pricing, Terms and Conditions.

*As of January 1 each year.

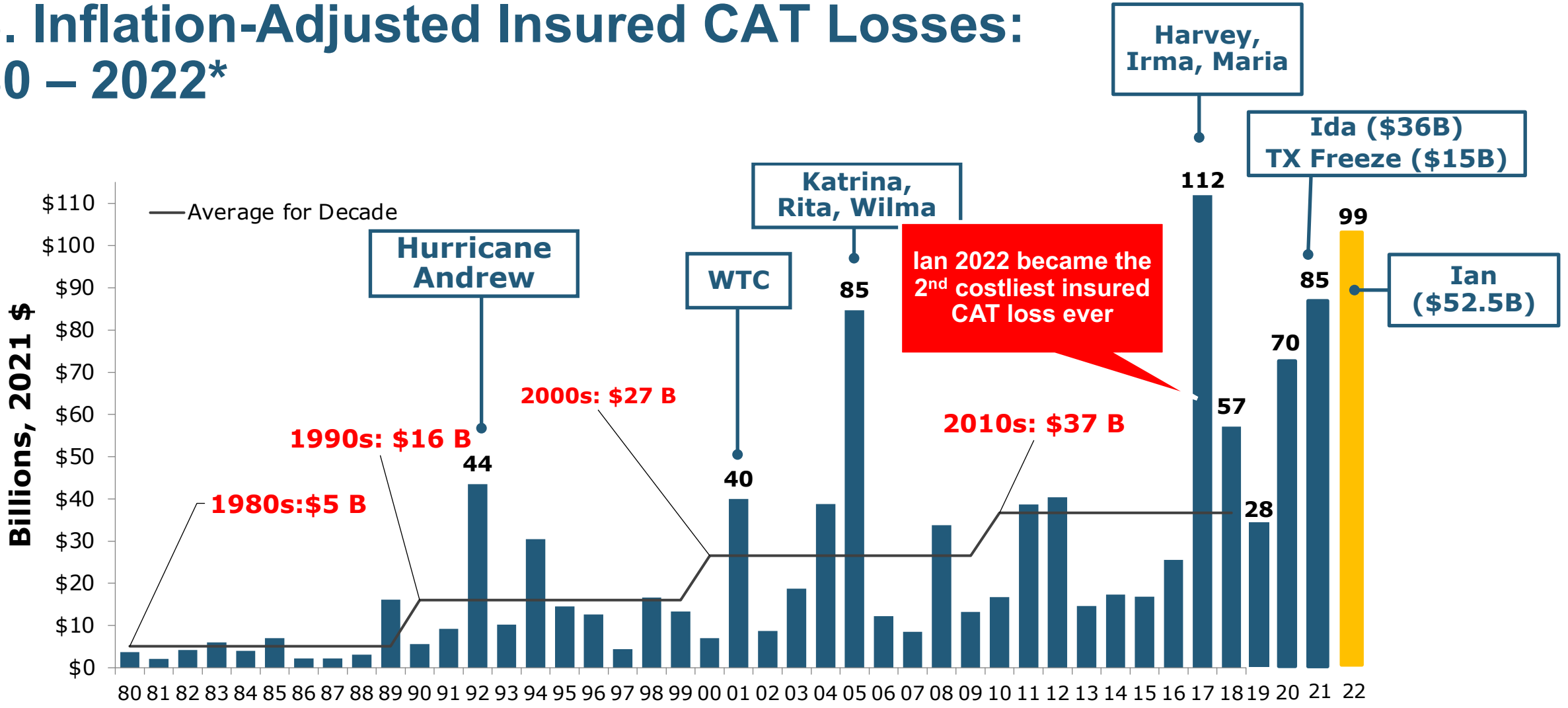
Source: Guy Carpenter; Artemis.bm accessed at: http://www.artemis.bm/us-property-cat-rate-on-line-index

Catastrophe Loss Trends

The Rise in CAT Losses Shows No Signs of Easing

The 2020s Are Off to an Ominous Beginning—in the US and Canada…

U.S. Inflation-Adjusted Insured CAT Losses: 1980 – 2022*



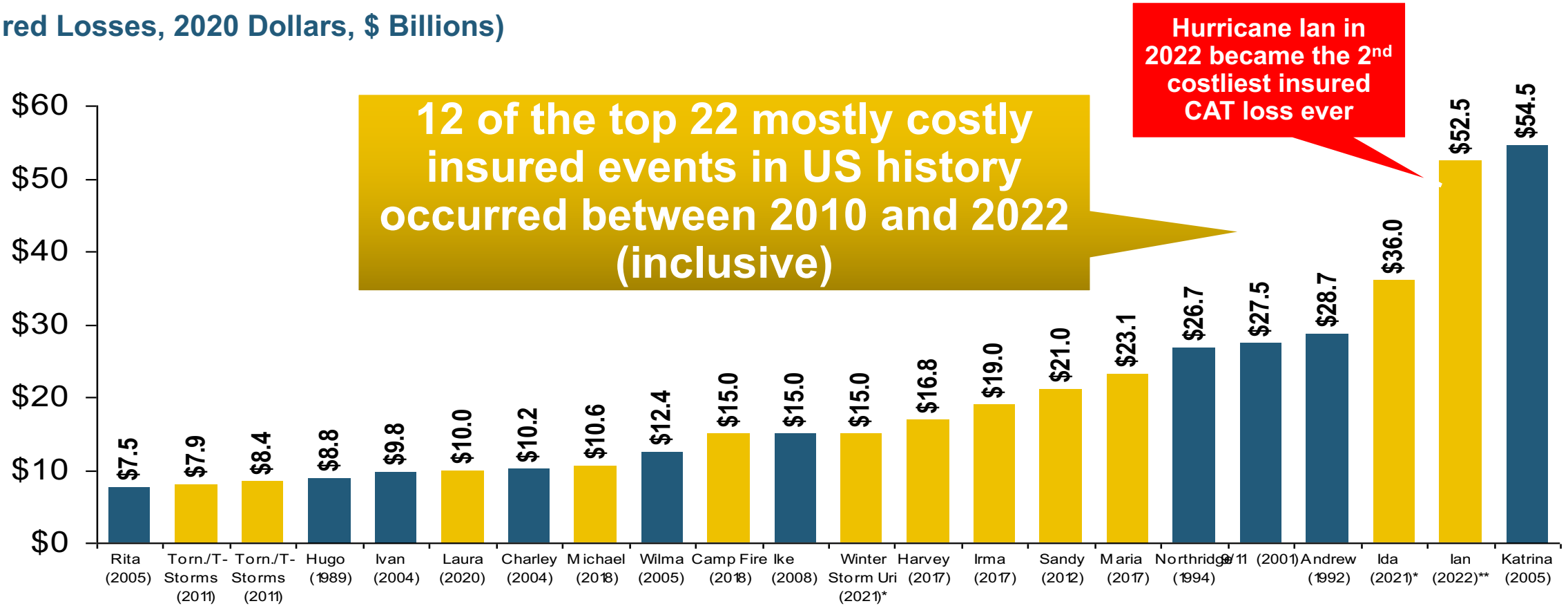
Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

The 2020s are off to an ominous start with $85B in average annual insured losses (2020-22)

*Stated in 2021 dollars except 2022 (2022 dollars).
Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020-21 figures from Munich Re; 2023 YTD data from Aon; Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

Top 22 Most Costly Disasters in U.S. History

(Insured Losses, 2020 Dollars, $ Billions)



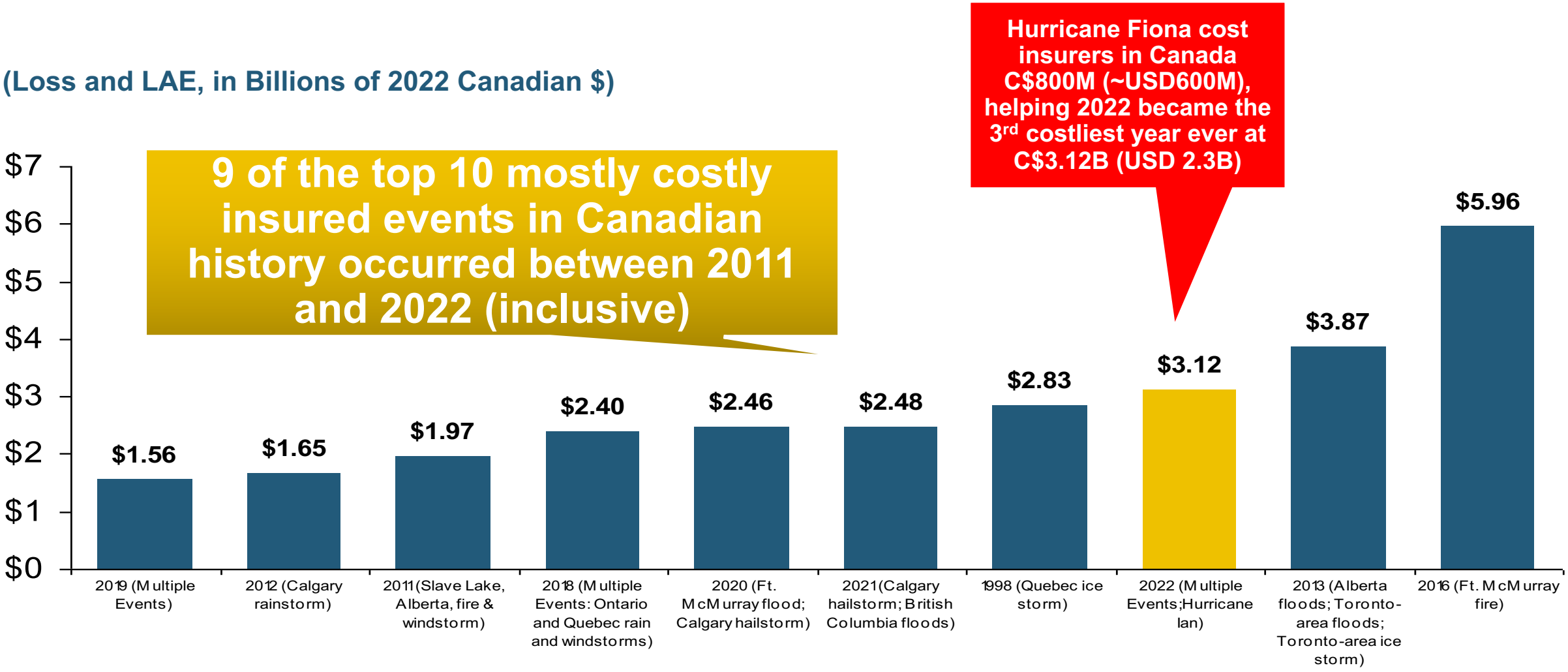
18 of the 22 Most Expensive Insurance Events in US History Have Occurred Since 2004.

*2021 dollars; **2022 dollars (Aon insured loss estimate as of 1/25/23).

Sources: PCS, RMS, Aon, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2020 dollars using the CPI.

Canada: Top 10 Highest Insured Loss Years on Record

(Loss and LAE, in Billions of 2022 Canadian $)



*As of Apr. 25, 2023, 1 Canadian dollar = 0.74 US dollars.

Sources: *1983–2007: Insurance Bureau of Canada, PCS Canada, Swiss Re, Deloitte. 2008–2021: CatIQ available at:* http://www.ibc.ca/nt/resources/media-centre/media-releases/severe-weather-in-2022-caused-3-1-billion-in-insured-damage-%E2%80%93-making-it-the-3rd-worst-year-for-insured-damage-in-canadian-history

Canada: Insured Catastrophic Losses in 2022
*(Billions of Canadian dollars)**

Insured Damage Estimate (YTD):
$3.1 billion

BC
Winter storm and king tide
$80 million (Dec)

AB, SK
Severe storms
$35 million (April)
$45 million (July)

Hailstorm
$55 million (Aug)

Prairies
Severe storms
$50 million (April)
$40 million (June)
$65 million (June)
$80 million (mid-July)

Prairies and Central Canada
Severe storms
$100 million (July)

ON, QC
Derecho
$1 billion (May)

Severe storms
$45 million (June)

Eastern Canada, Quebec, Southern Ontario
Winter storm
$140 million (Feb)

QC and Eastern Canada
Hurricane Fiona
$800 million (Sept)

Eastern Canada Bomb Cyclone
$180 Million (Dec)

The amount of insured damage is an estimate provided by CatIQ (www.catiq.com) under license to Insurance Bureau of Canada.

*As of Apr. 25, 2023, 1 Canadian dollar = 0.74 US dollars.

Sources: Insurance Bureau of Canada from CatIQ available at: http://www.ibc.ca/nt/resources/media-centre/media-releases/severe-weather-in-2022-caused-3-1-billion-in-insured-damage-%E2%80%93-making-it-the-3rd-worst-year-for-insured-damage-in-canadian-history

Hurricane Fiona: A Recording-Breaking Storm for Canada*

Province	Estimated Insured Loss ($B)
Nova Scotia	C$385M+ *(US$486M)*
Prince Edward Island	C$220M+ *(US$162M)*
New Brunswick	C$30M+ *(US$22M)*
Quebec	C$11M+ *(US$8M)*
Newfoundland & Labrador	C$7M+ *(US$5M)*
Total Insured	C$660M+ *(US$486M)*

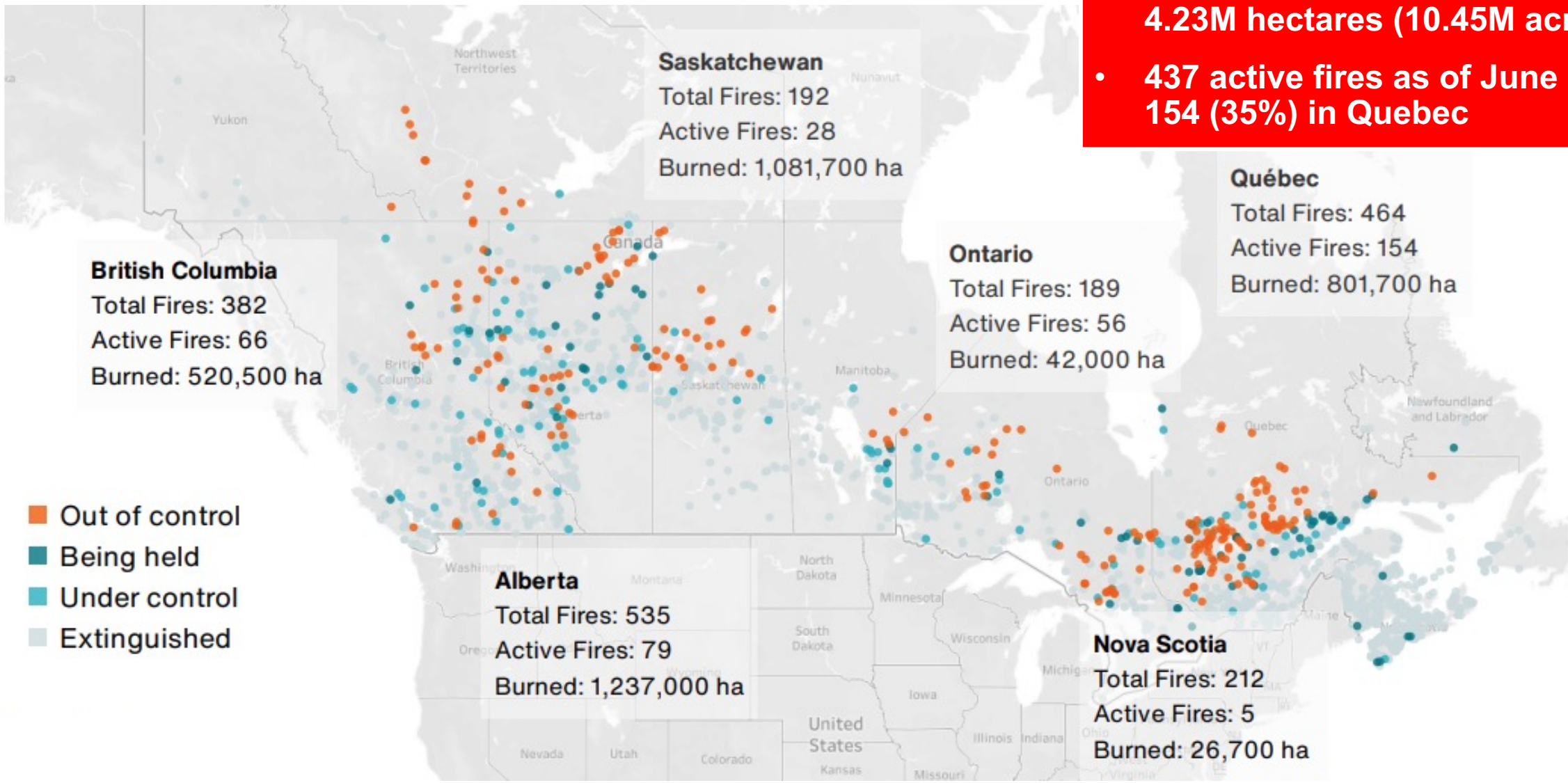
- **Fiona produced C$660 million (US$486M) in insured losses in Canada's maritime provinces after making landfall on 9/24/22 with max winds of 100 km/h (62 mph)**
- **Fiona was the costliest weather event ever in Atlantic Canada and became the 10th largest insured CAT loss in Canadian history**
- **The "new normal" for annual insured CAT losses in Canada is now C$2 billion (US$1.5B)**

Sources: Artemis.com from Insurance Bureau of Canada as of Oct. 20, 2022, accessed at https://www.artemis.bm/news/hurricane-fiona-industry-loss-pegged-at-c660m-in-canada/ ; University of South Carolina Risk and Uncertainty Management Center.

2023 Canada YTD Wildfires (As of June 8)

As of June 8, 2023

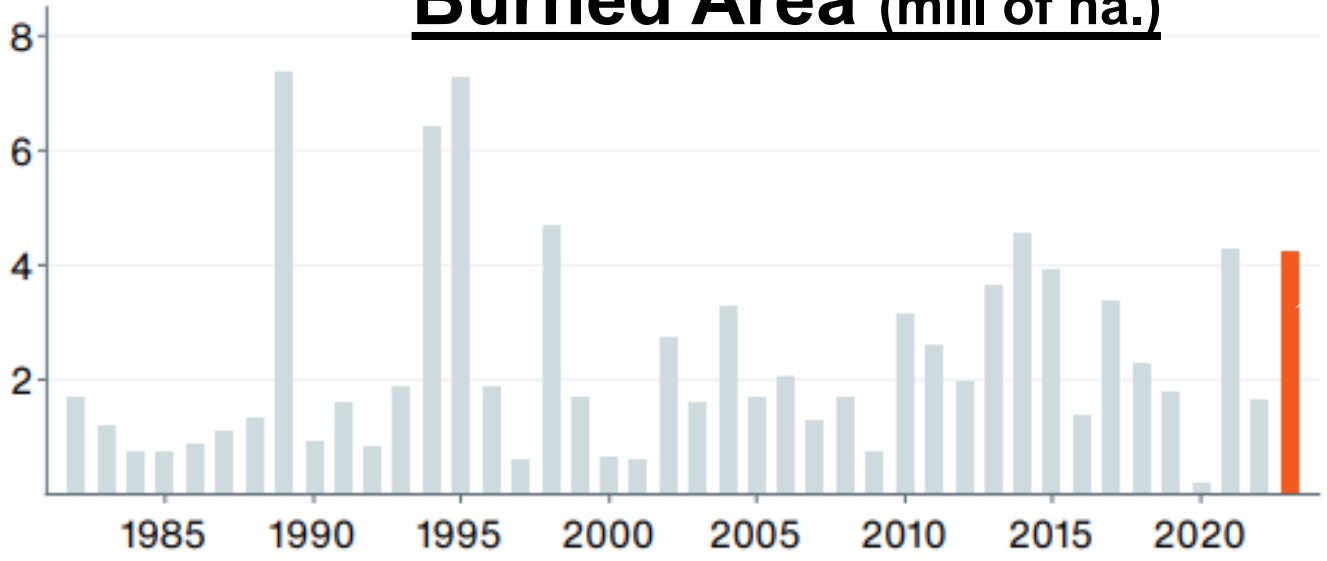
- **2,360 individual wildfires had burned an area of more than 4.23M hectares (10.45M acres)**
- **437 active fires as of June 8, 154 (35%) in Quebec**



Source: Canadian Interagency Forest Fire Center (CIFFC) data and Aon Weekly CAT Report, June 9, 2023.

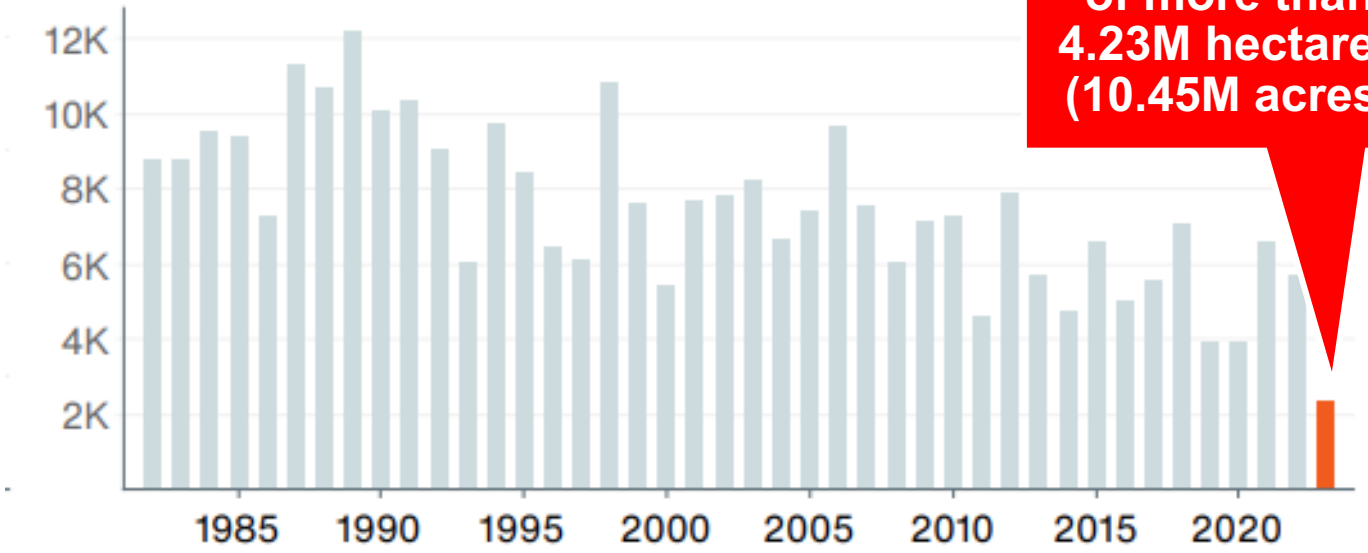
2023 Canada YTD Wildfires (As of June 9)

Burned Area (mill of ha.)



Wildfires had burned an area of more than 4.23M hectares (10.45M acres) as of June 8, putting 2023 on a trajectory of becoming the most severe years for wilfires since at least 1995

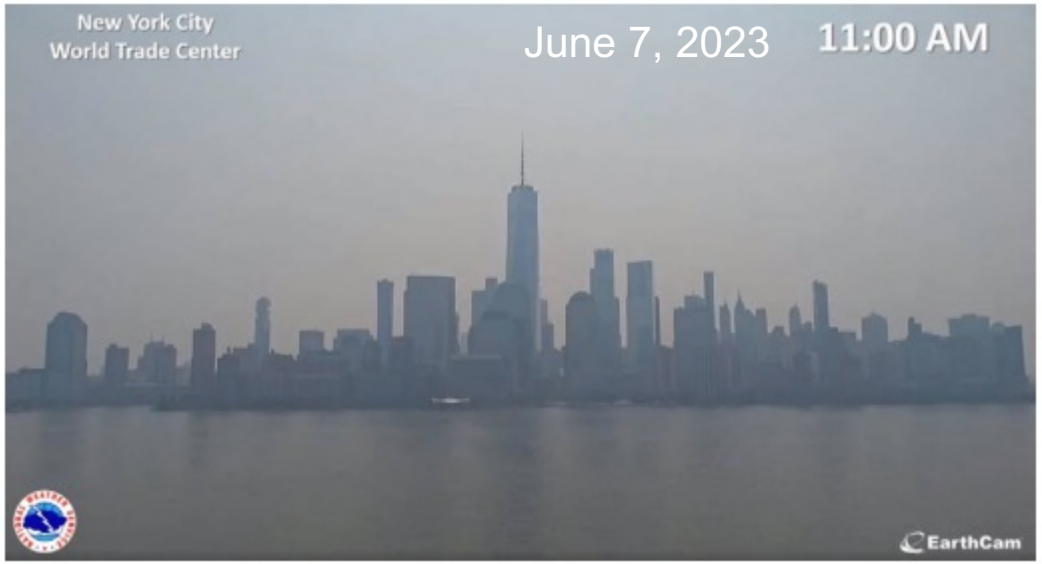
Number of Fires



As of June 8, more than 2,360 individual wildfires had burned an area of more than 4.23M hectares (10.45M acres)

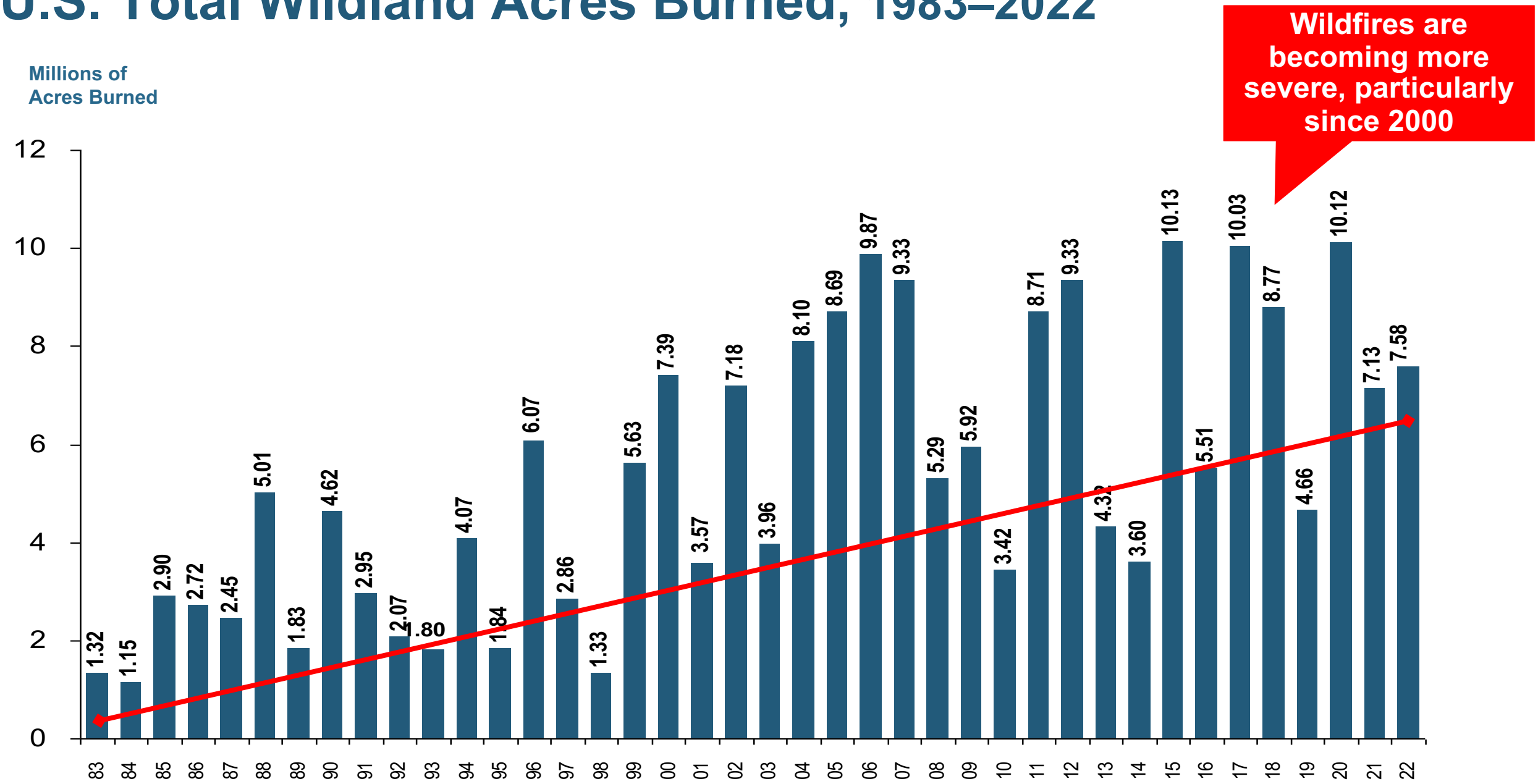
Source: Canadian Interagency Forest Fire Center (CIFFC) data and Aon Weekly CAT Report, June 9, 2023.

Air Quality Impacts from Canadian Wildfires: Massive Media



Source: National Weather Service; Aon.

U.S. Total Wildland Acres Burned, 1983–2022



*2004 figures do not include data for North Carolina

Sources: National Interagency Fire Center at: https://www.nifc.gov/fire-information/statistics/wildfires.

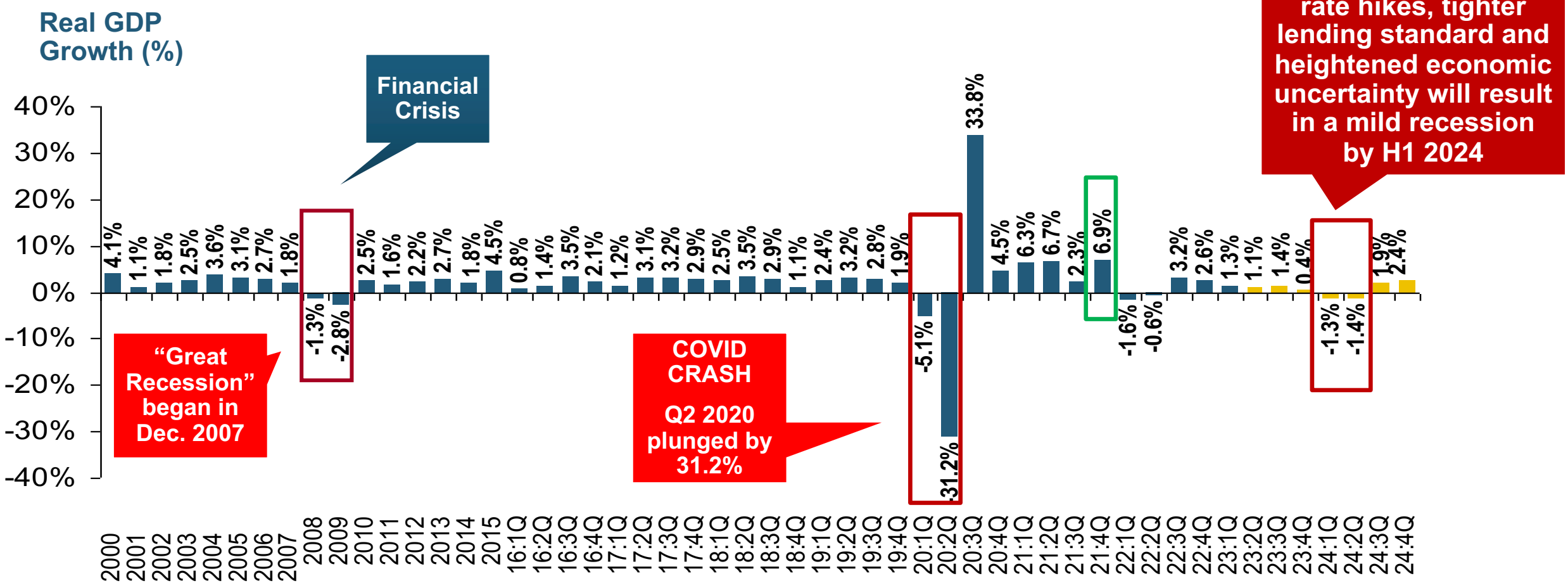
Economic Overview
Economic Optimism Plummeted in 2022-2023
Inflation is Breeding Ground for Pessimism

Inflation, Geopolitical Conflicts and Rising Interest Rates and Weighing Heavily on Business and Consumer Sentiment

Can the Fed "Thread the Needle" and Achieve a "Soft Landing"?

46

US Real GDP Growth*



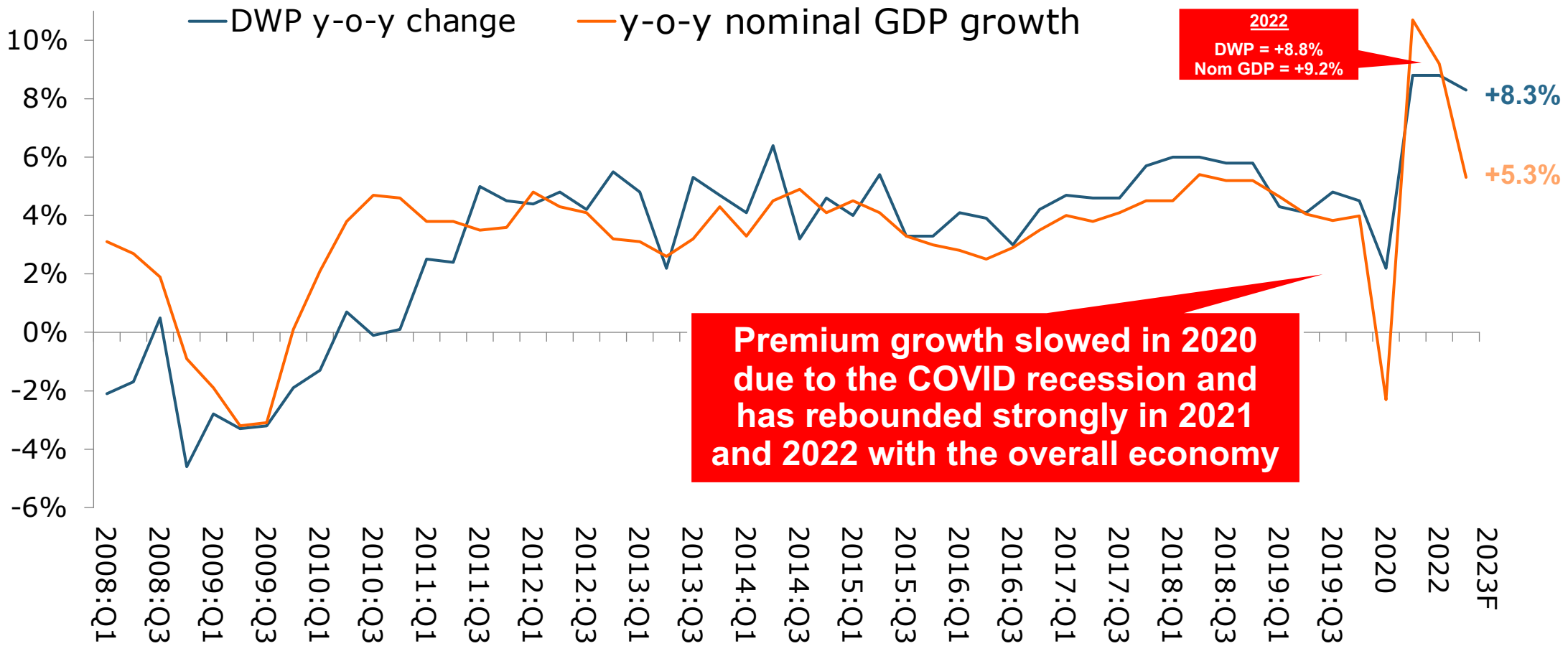
Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow in 2023/24 as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (6/23); Center for Risk and Uncertainty Management, University of South Carolina.

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2023F*

Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change



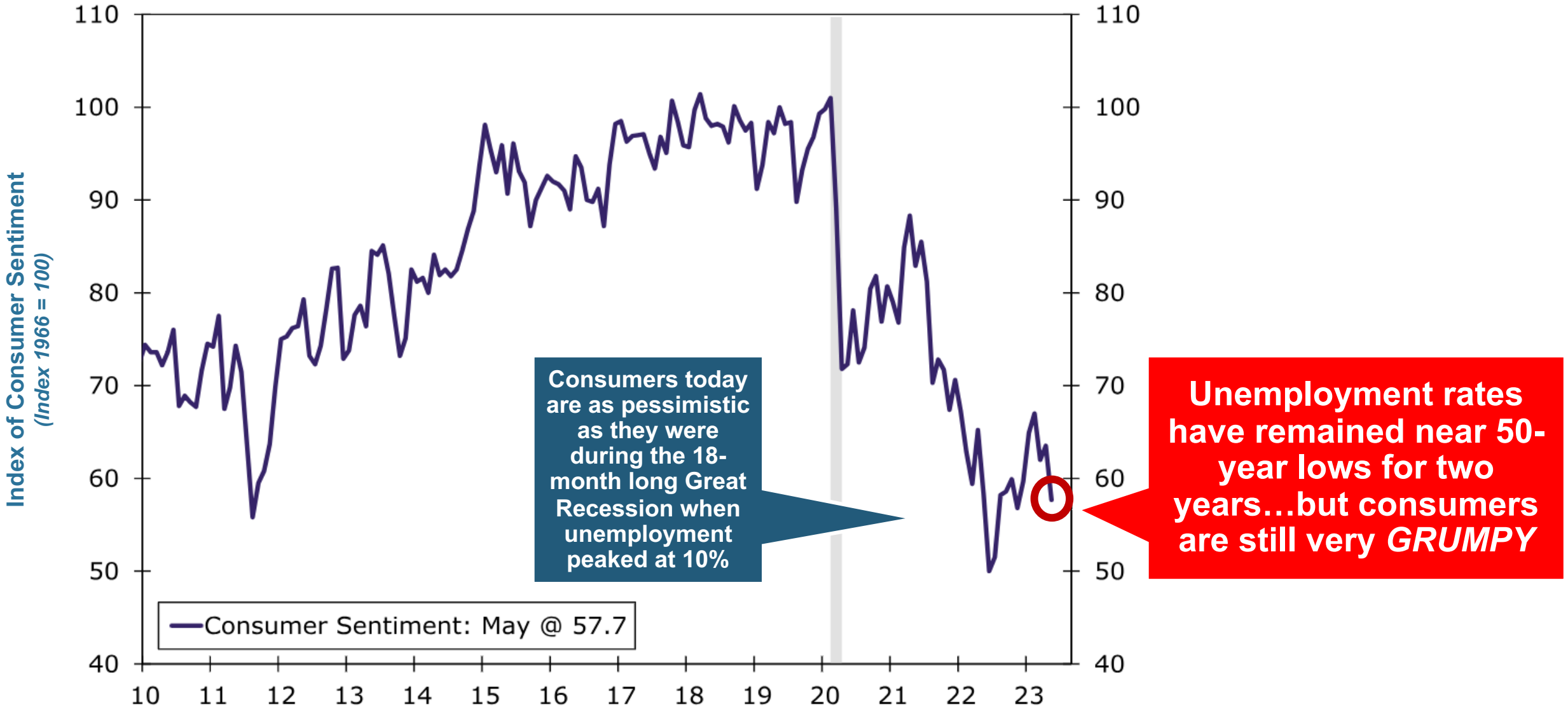
Premium growth slowed in 2020 due to the COVID recession and has rebounded strongly in 2021 and 2022 with the overall economy

Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry's growth prospects inextricably linked to economic performance.

*2020-23F figures are annual.

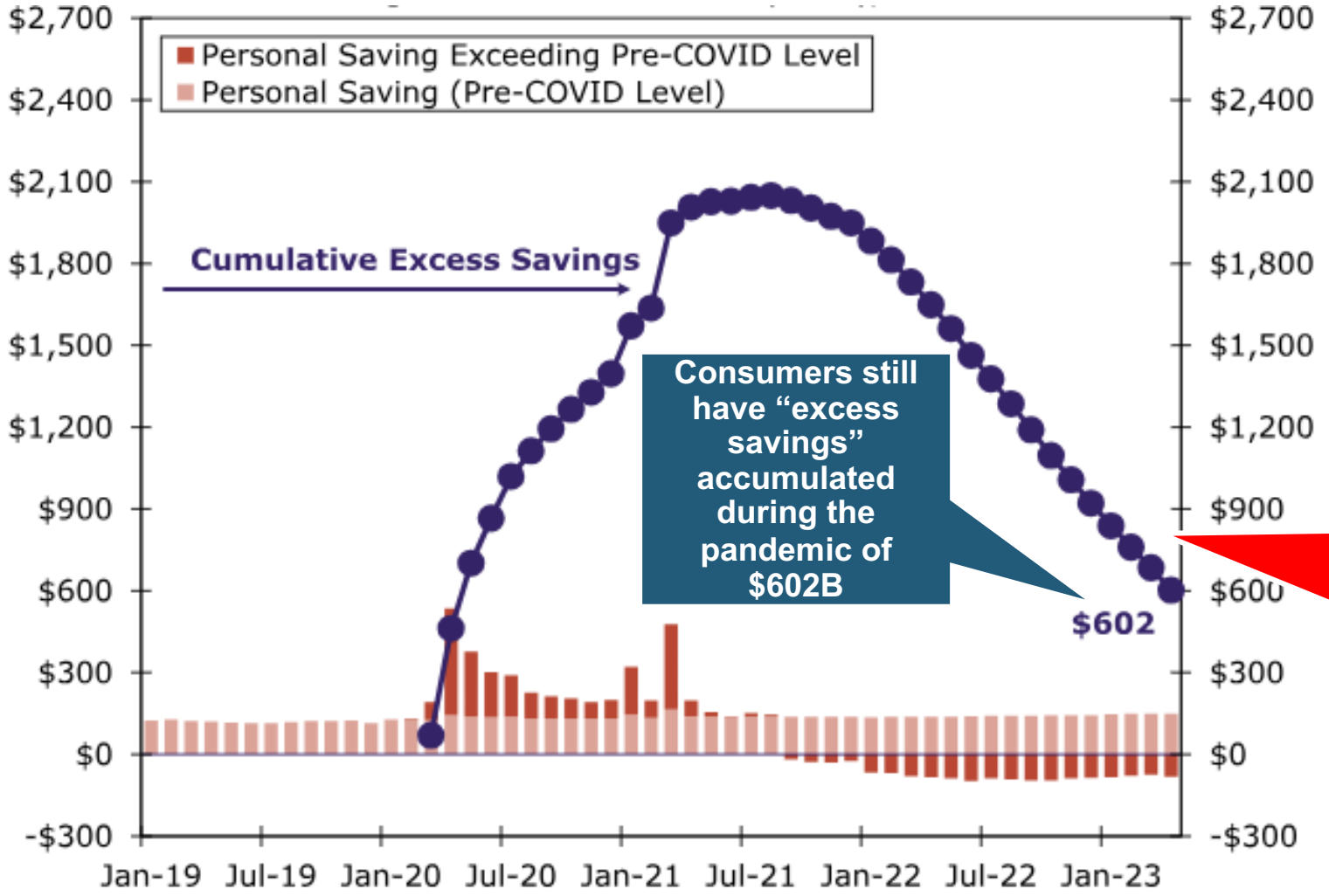
Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

Consumer Sentiment: Still Near 15-Year Lows Despite Strong Jobs Markets



Source: University of Michigan and Wells Fargo Economics.

"Excess" Household Savings: Props Up Consumer Spending *(as of April 2023)**

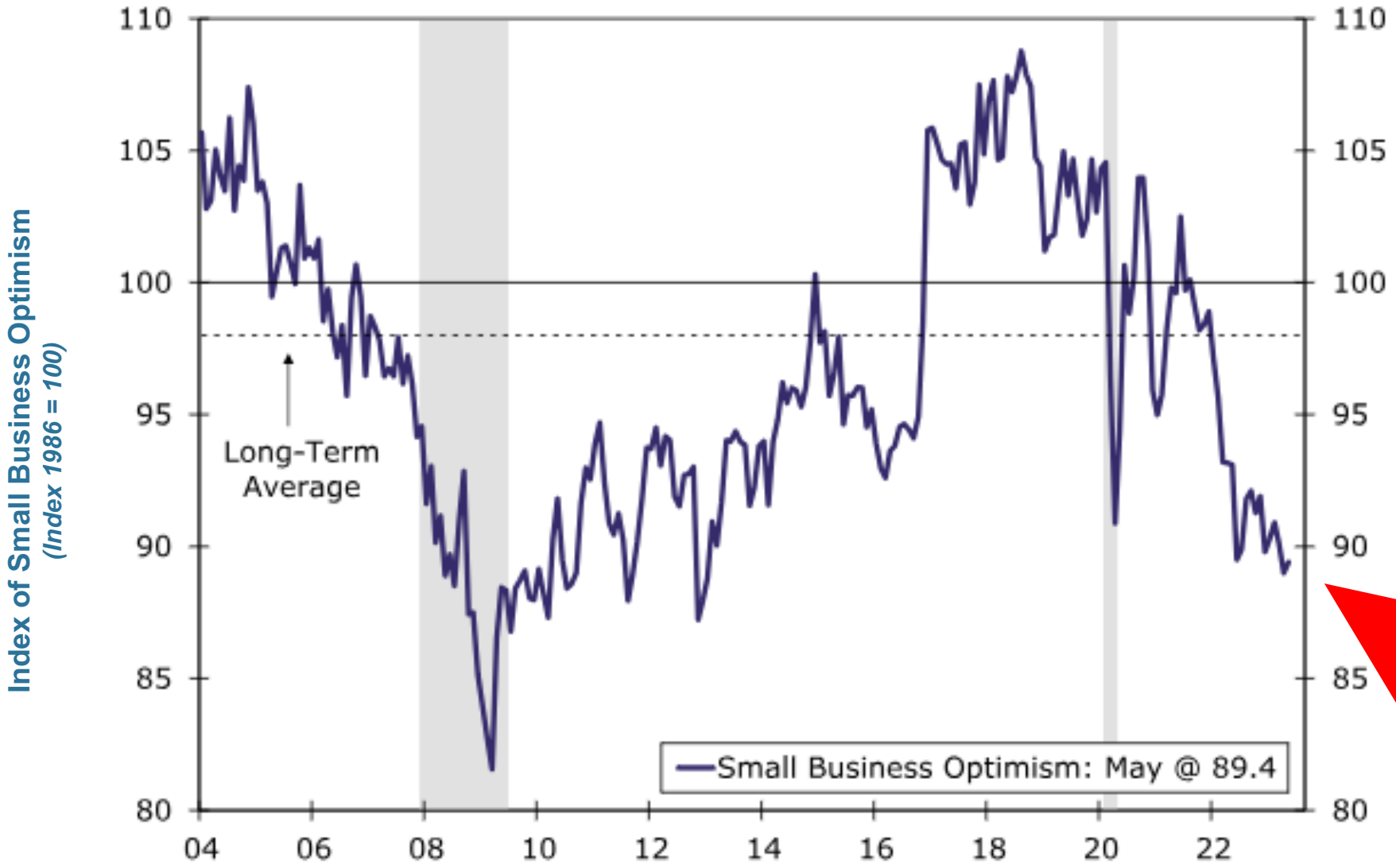


Reasons Why the Recession Will Be Shorter, Shallower and Later

1. ***"Excess" savings still propping up consumer demand***
2. ***Strong labor market***

*Latest available.
Source: U.S. Department of Commerce and Wells Fargo Economics.

Small Business Sentiment: Optimism is at 12-Year Low



Small businesses today are even *more* pessimistic than they were during the depths of pandemic, despite strong spending by consumers and easing labor market issues. *Business owner concerns are pivoting from cost concerns to recession and tight credit worries.*

Source: NFIB and Wells Fargo Economics.

Unemployment Rate: Jan. 2020–May 2023

COVID-19 shutdowns pushed the unemployment rate up to a shocking 14.7% in April 2020, the highest since the Great Depression

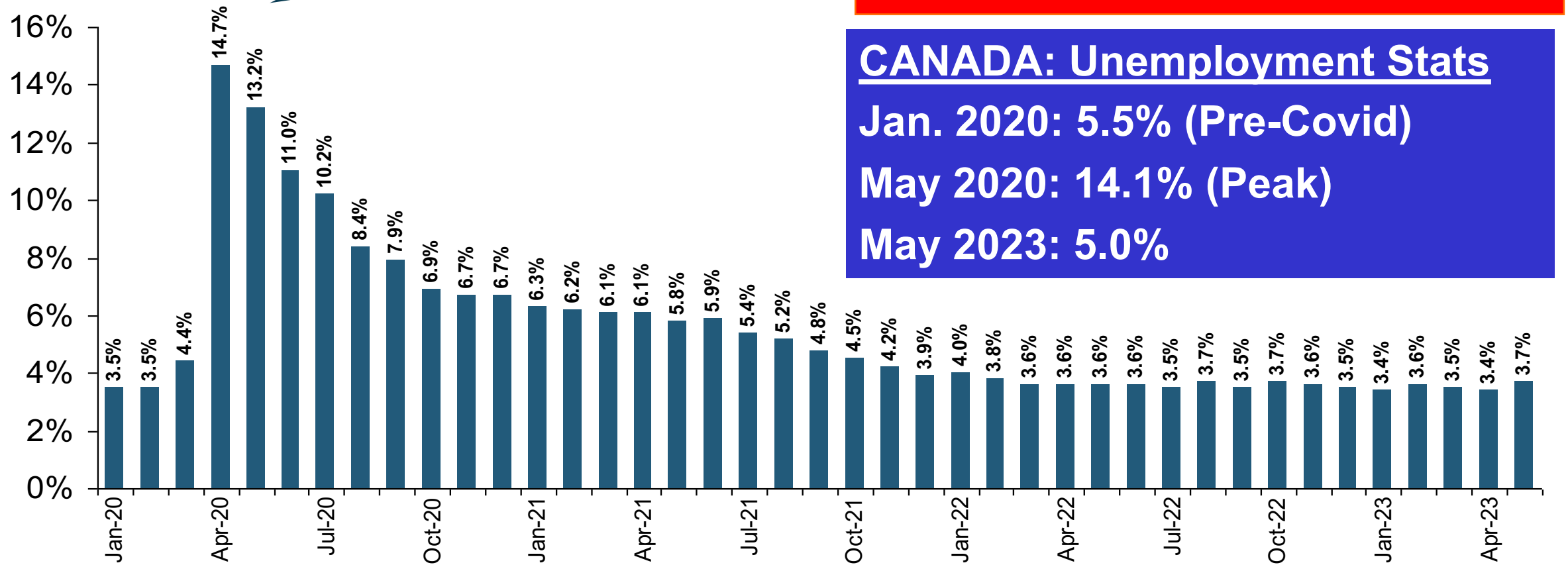
- 22.2M U.S. jobs were lost to the pandemic—in a span of just 60 days from Feb. to Apr. 2020
- All were recovered by mid-2022

CANADA: Unemployment Stats

Jan. 2020: 5.5% (Pre-Covid)

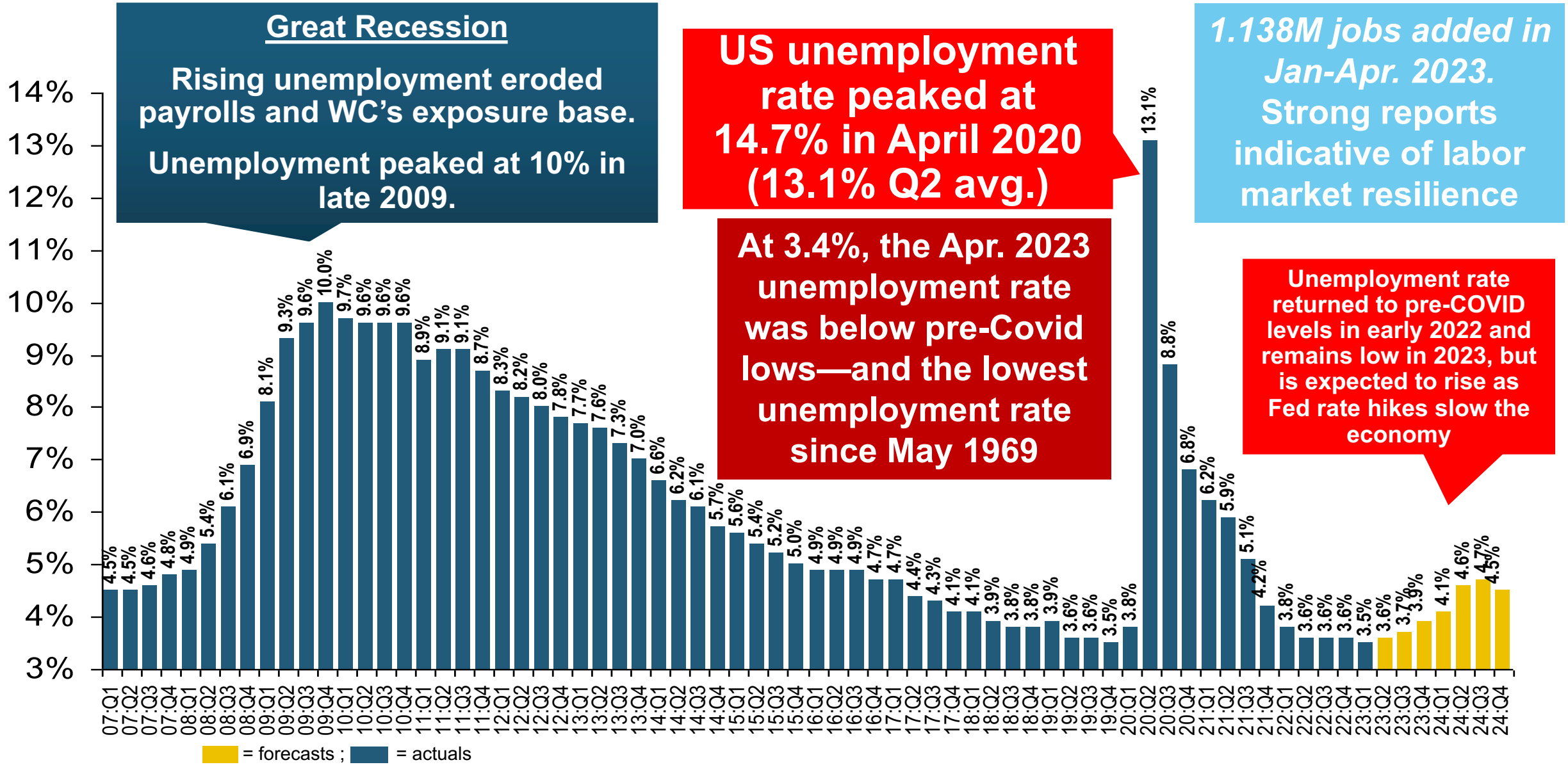
May 2020: 14.1% (Peak)

May 2023: 5.0%



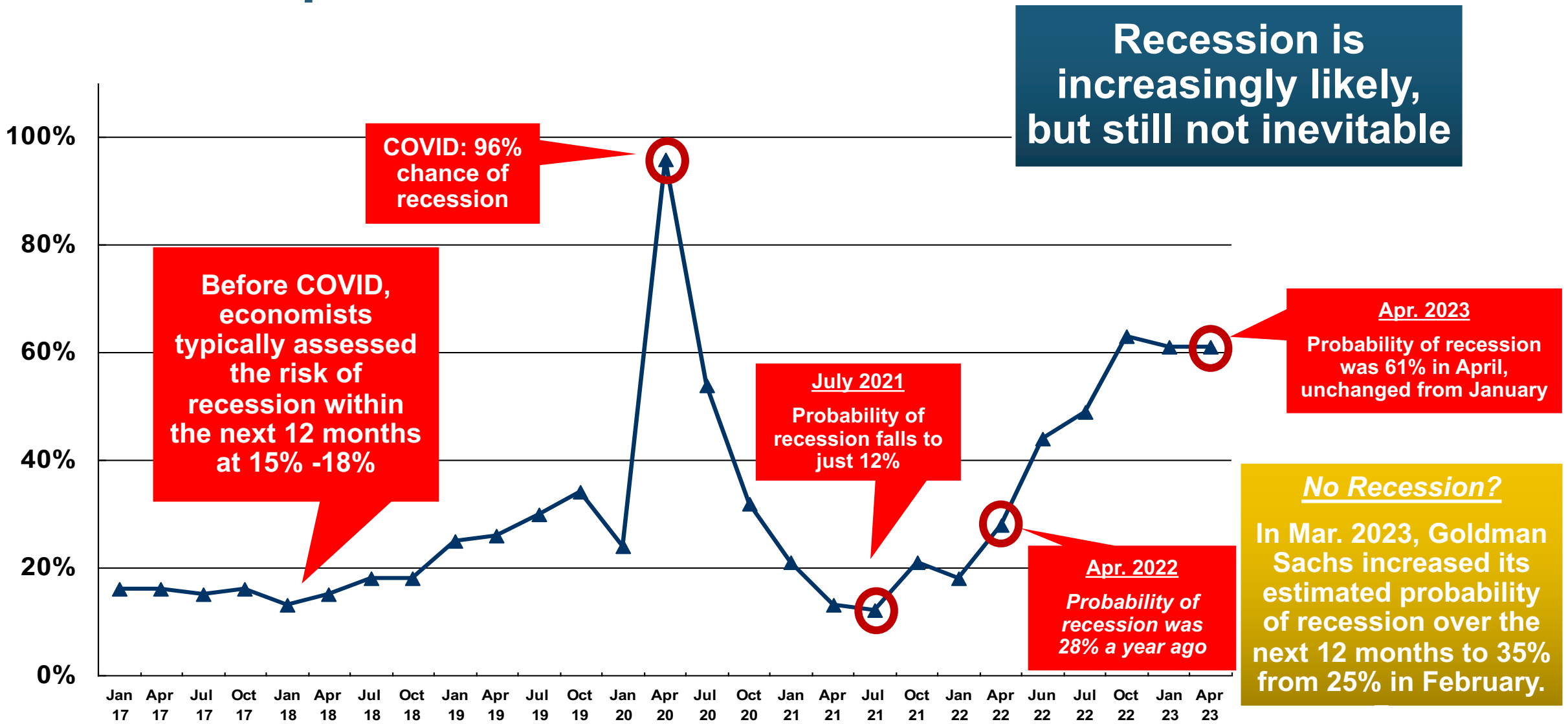
Sources: US Bureau of Labor Statistics; Statistics Canada; Risk and Uncertainty Management Center, University of South Carolina.

US Unemployment Rate Forecast: 2007:Q1–2024:Q4



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (6/23 edition); Risk and Uncertainty Management Center, University of South Carolina.

Probability the U.S. Is in a Recession Within Next 12 Months: Jan. 2017 – Apr. 2023*



*Apr. 2023 survey included the responses of 62 economists.

Source: Wall Street Journal surveys of economists: https://www.wsj.com/articles/despite-easing-price-pressures-economists-in-wsj-survey-still-see-recession-this-year-11673723571; Risk and Uncertainty Management Center, University of South Carolina.

Not All Recessions Are Created the Same – What Are the Possibilities Over the Next 12 Months?

A soft landing occurs when an economy sustains a mild slowdown whereby consumer and investment spending softens, but continues to register positive growth.

Soft Landing

A hard landing describes a recession with a sharp contraction in spending, resulting in many workers losing their jobs and companies significantly reducing their capital investments.

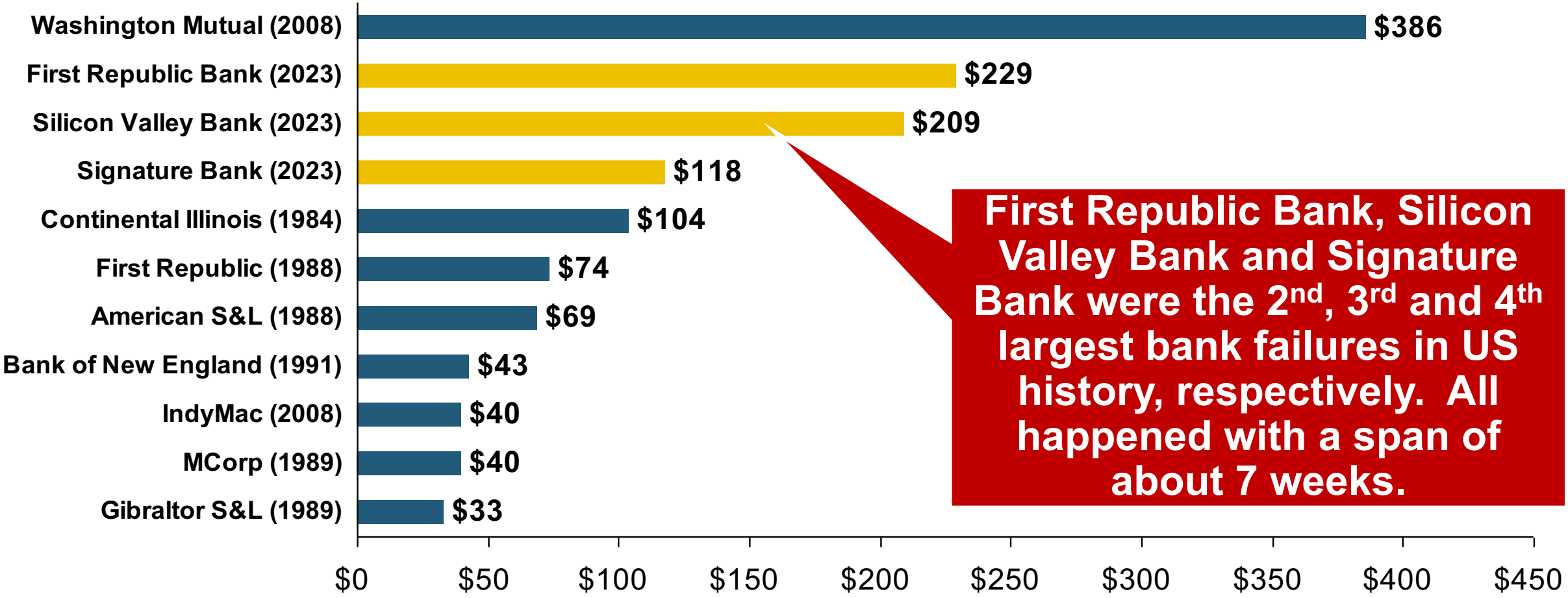
Hard Landing

In a "no landing" scenario, the economy averts a recession altogether.

No Landing

Source: Public Mutual; Univ. of South Carolina, Risk and Uncertainty Management Center.

Top 11 Bank Failures in U.S. History
*(Based on Assets at Time of Failure, $Billions)**



*Figures are inflation-adjusted to 2021 dollars, except Silicon Valley and Signature Bank which are as reported at year-end 2022 and First Republic reported as of 2023:Q1.
Source: FDIC; USC Risk and Uncertainty Management Center.

The Last Word on the "R" Word

- **Forecast is now calls for a mild recession in early 2024**
- **Recession has no discernable impact on overall P/C underwriting performance, based on data over the past 50 years**
- **Recession has an adverse impact on Commercial Lines NWP growth rates, though magnitude varies w/state of the underwriting cycle (Hard/Soft market)**
- **ROEs are also impacted by recession (often via investment income effects)**
- ***Current banking "crisis" increases likelihood of recession***
  - ***Primarily through a contraction in credit***
- **A slowdown in late 2023 and recession in early 2024 will likely:**
  - **Lead to a deceleration in Commercial Lines NWP growth**
  - **Take some pressure off the current hard market as demand for P/C insurance slows**
  - **ROEs will likely rise (assuming "normal" underwriting performance) due to rising investment income and improving rate adequacy**
  - **Immediate threat of US debt default averted**
  - **No repeat of Financial Crisis**

The Inflation Threat

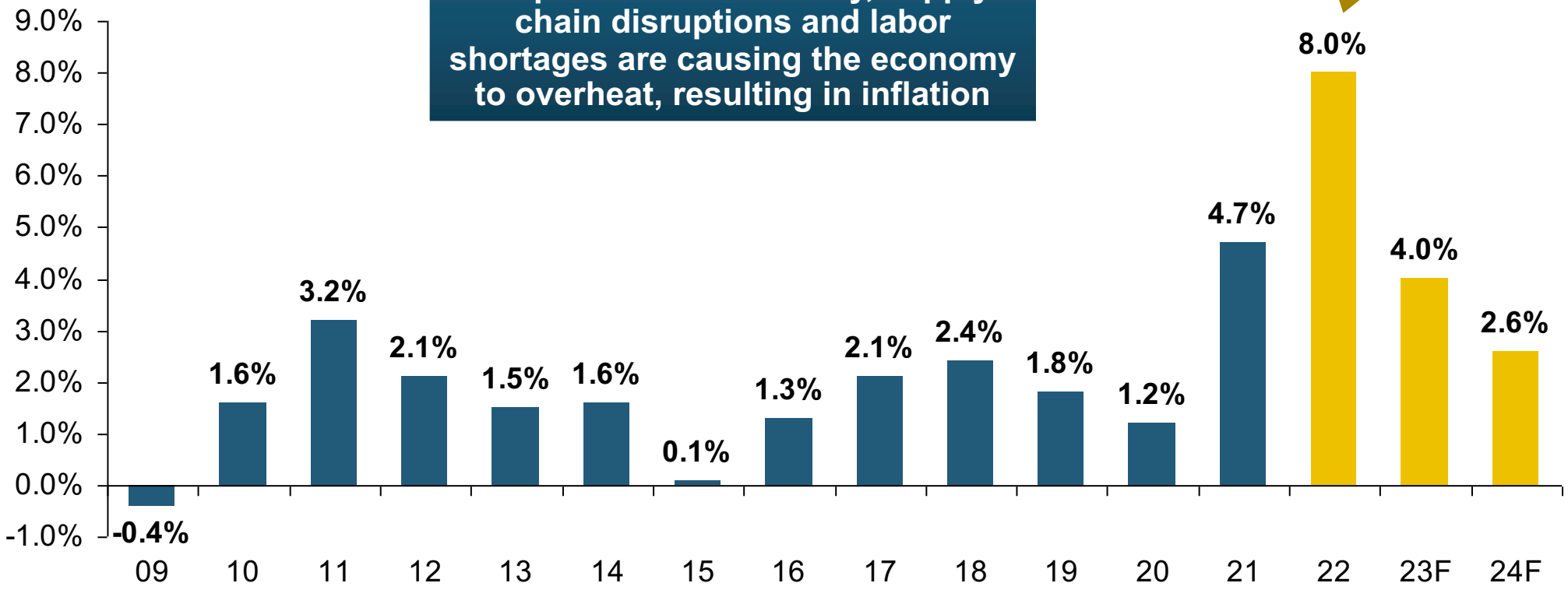
Inflation is the #1 Concern of U.S. Consumers and Corporations…

It's Also a Major Concern of Insurers

U.S. Inflation Rate: 2009-2024F*

Inflation accelerated sharply in 2021 before peaking at 9.1% in June 2022. Inflation should moderate through 2023/24; Forecast is highly dependent of trajectory of energy prices and Fed rate hikes.

There's a great deal of concern that trillions of dollars of stimulus plus the post-COVID recovery, supply chain disruptions and labor shortages are causing the economy to overheat, resulting in inflation



Insurer Concerns About Inflation

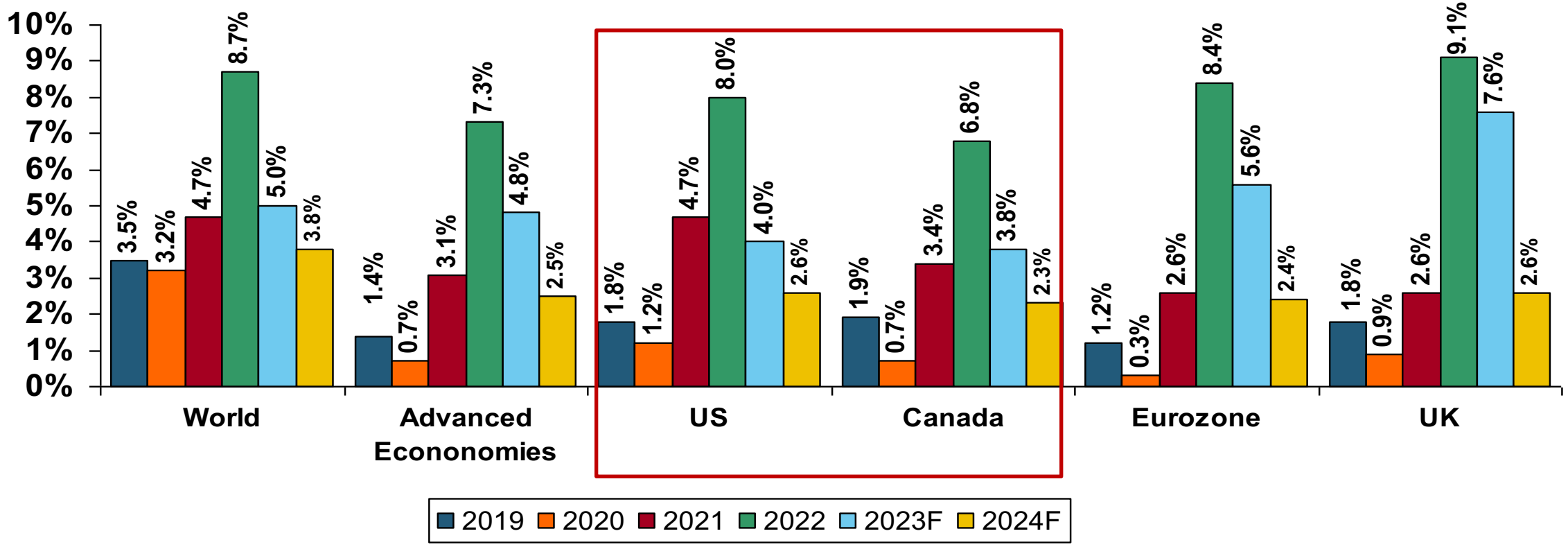
- Rate Inadequacy
- Reserve Inadequacy
- Insurance-to-Value

*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (6/23); USC Center for Risk and Uncertainty Management.

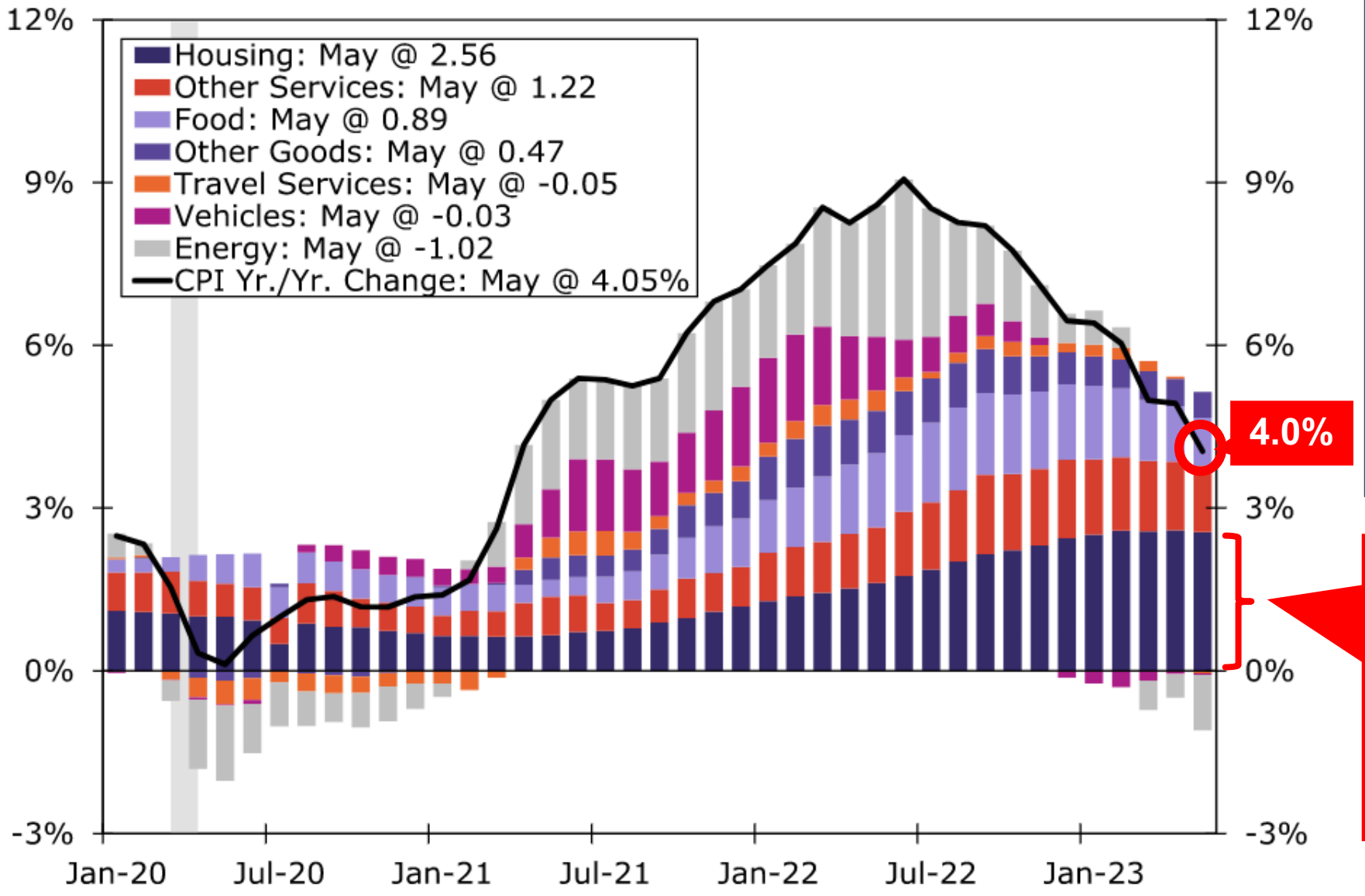
Inflation: A Global Phenomenon – Outlook through 2024F

- **Inflation is a global phenomenon**
- **Major driver of property and auto claim severity in most major markets**
- **Inflation will drive the need for tens of billions in additional (re)insurance capacity**



Source: IMF, BLS, Statistics Canada and Wells Fargo Securities (Jun. 2023); Univ. of South Carolina, Risk and Uncertainty Management Center.

Contribution to CPI by Category: May 2023

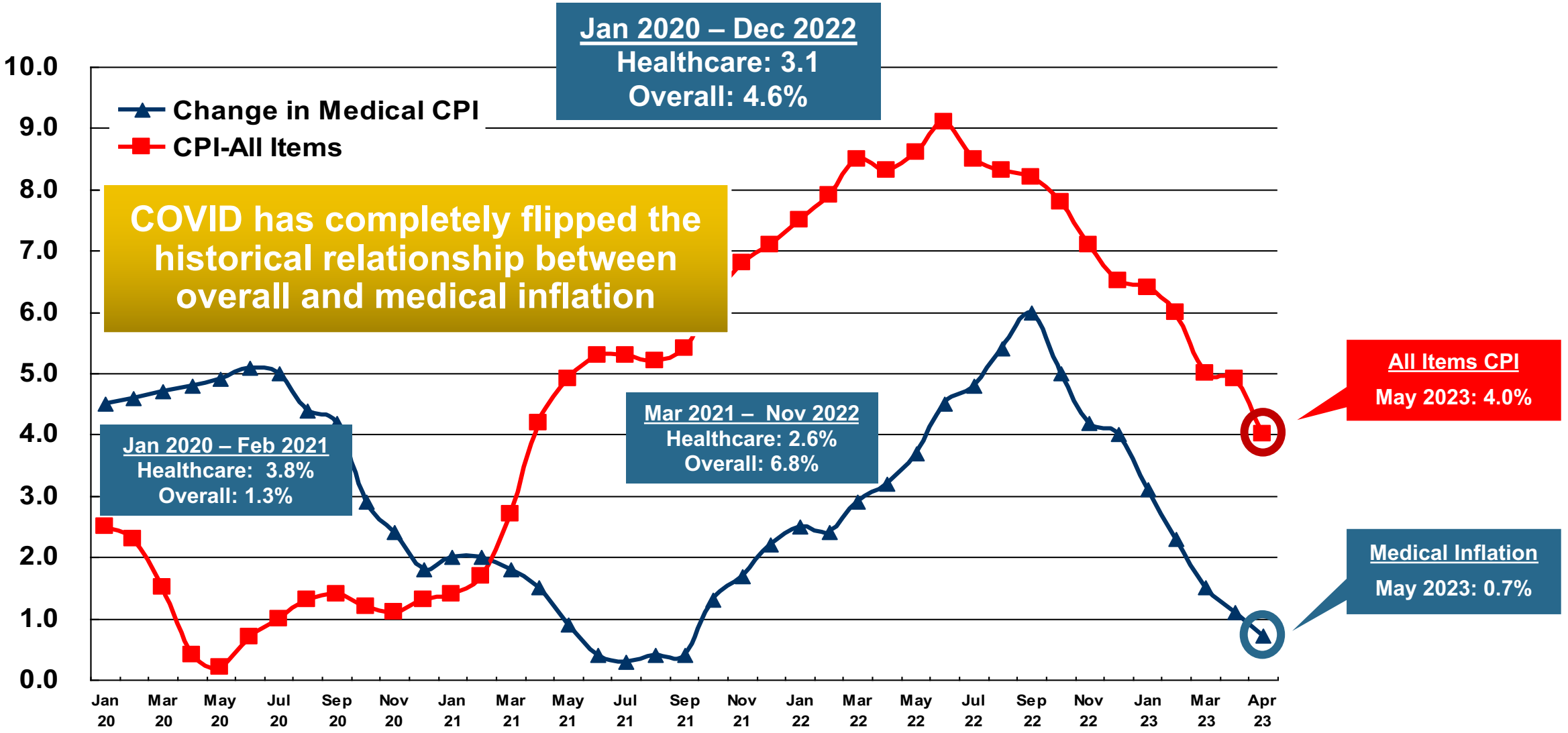


Prices were up 4.0% in May 2023 vs. a year ago, down from the June 2022 peak of 9.1%. Even as energy prices recede from their 2022 peak, increases in Shelter (Housing), Food, and Other Services are the major obstacles to tempering inflation

Housing (Shelter) accounted for 63% of the 4.05% increase in the CPI in May 2023. The impact of this CPI component will diminish in the months ahead.

Source: U.S. Department of Commerce and Wells Fargo Economics.

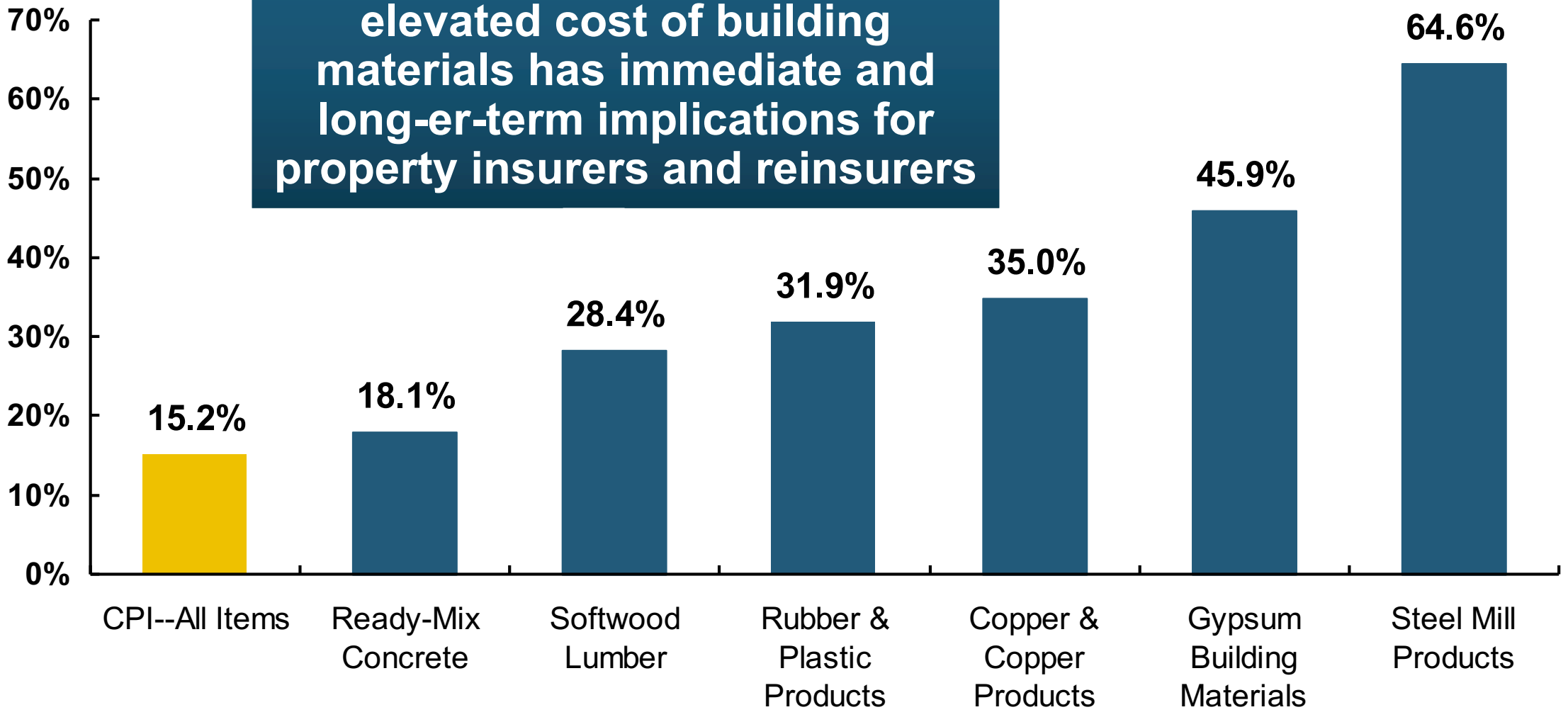
Medical Cost Inflation vs. Overall CPI Since COVID, Jan. 2020 – May 2023 *(Percent Change from Year Ago)*



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Change in Cost Indicators for Selected Construction Inputs, Jan. 2020 – Dec. 2022

The rapid increase in and still-elevated cost of building materials has immediate and long-er-term implications for property insurers and reinsurers



Source: U.S. Bureau of Labor Statistics.

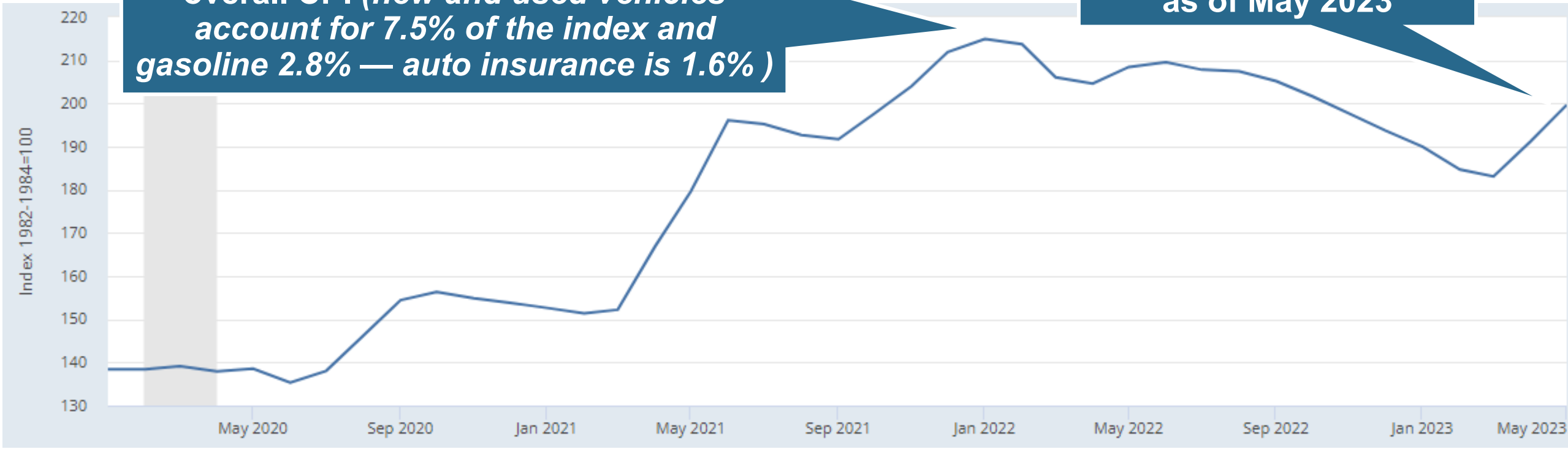
Producer Price Index: Lumber and Wood Products, Jan. 2020 – Dec. 2022

Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Price Index Changes for Used Cars & Trucks, Jan. 2020 – May 2023

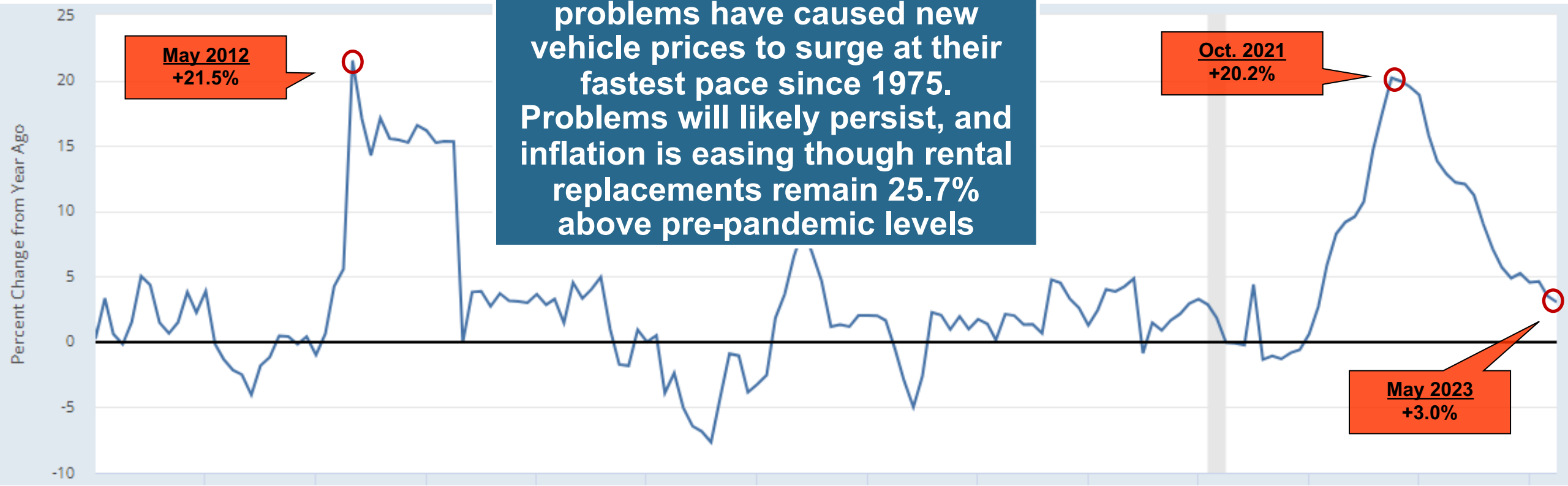
New and Used Vehicle prices surged during the pandemic, +52.3% from Jan. 2020 before peaking in Jan. 2022— putting significant pressure on the overall CPI *(new and used vehicles account for 7.5% of the index and gasoline 2.8% — auto insurance is 1.6%)*

Used car prices in recent months have begun to fall, though still remain far above pre-Covid levels, +44% as of May 2023



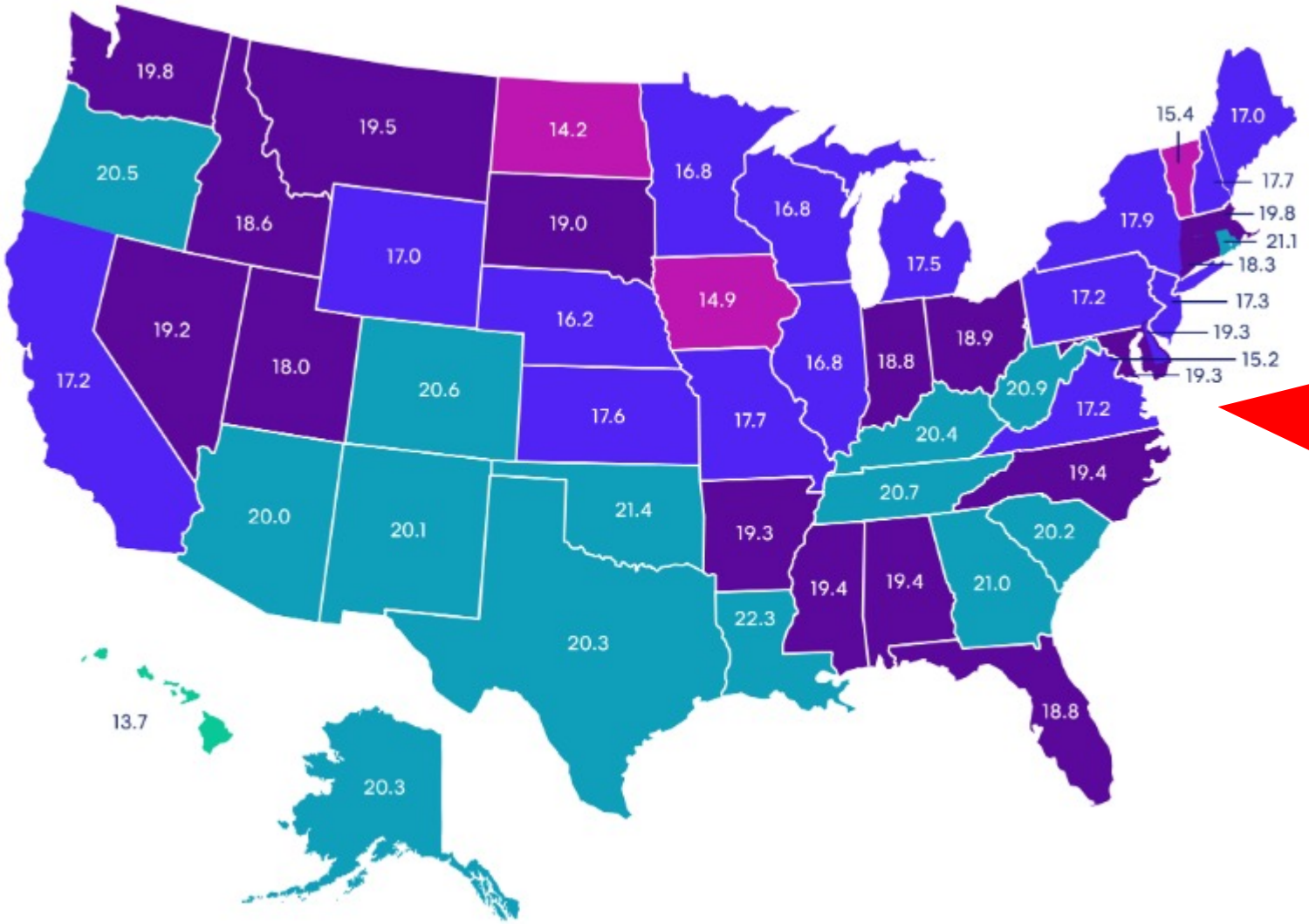
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Change in Price for Replacement Passenger Car Rentals, Jan. 2010 – Apr. 2023 (% Change from Year Ago)



Sources: Federal Reserve Bank of St. Louis at: https://fred.stlouisfed.org/series/PCU5321115321113#0 from US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Length of Collision Replacement Rentals by State (Days), 2022:Q4



Avg. Length of Rental

2022:Q4: 18.7 days

2022:Q2: 17.7 days

2021:Q4: 17.0 days

2021:Q2: 13.2 days

CHANGE: +1.7 Days (21:Q4 – 22:Q4)

CHANGE: +5.5 Days (21:Q2 – 22:Q4)

RANGE: 13.7 (HI) to 22.3 (LA)

The increase in length of rental was referred to as "striking" by Enterprise and is a key driver of auto claim severity. The increase in the cost of rentals materially exacerbates the problem.

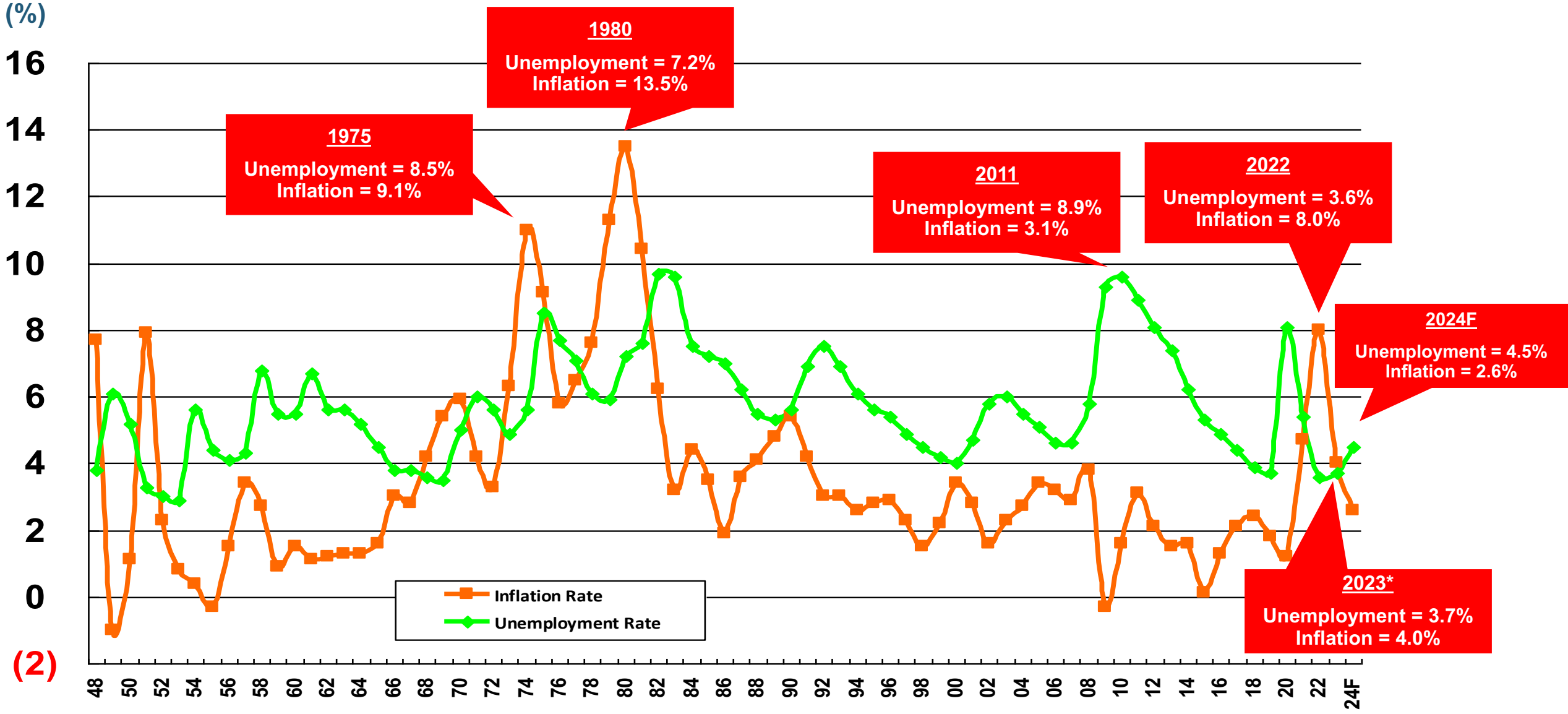
Source: Enterprise Rental-A-Car U.S. Length of Rental Report accessed via Mitchell.com at: https://www.repairerdrivennews.com/wp-content/uploads/2022/04/Q1-2022_US-Length-of-Rental-Report.pdf.

Are Things As Bad as Many *Still* Believe Them to Be?

Many Believed that We Were in a Recession in 2022—*We Weren't—And We Still Aren't*

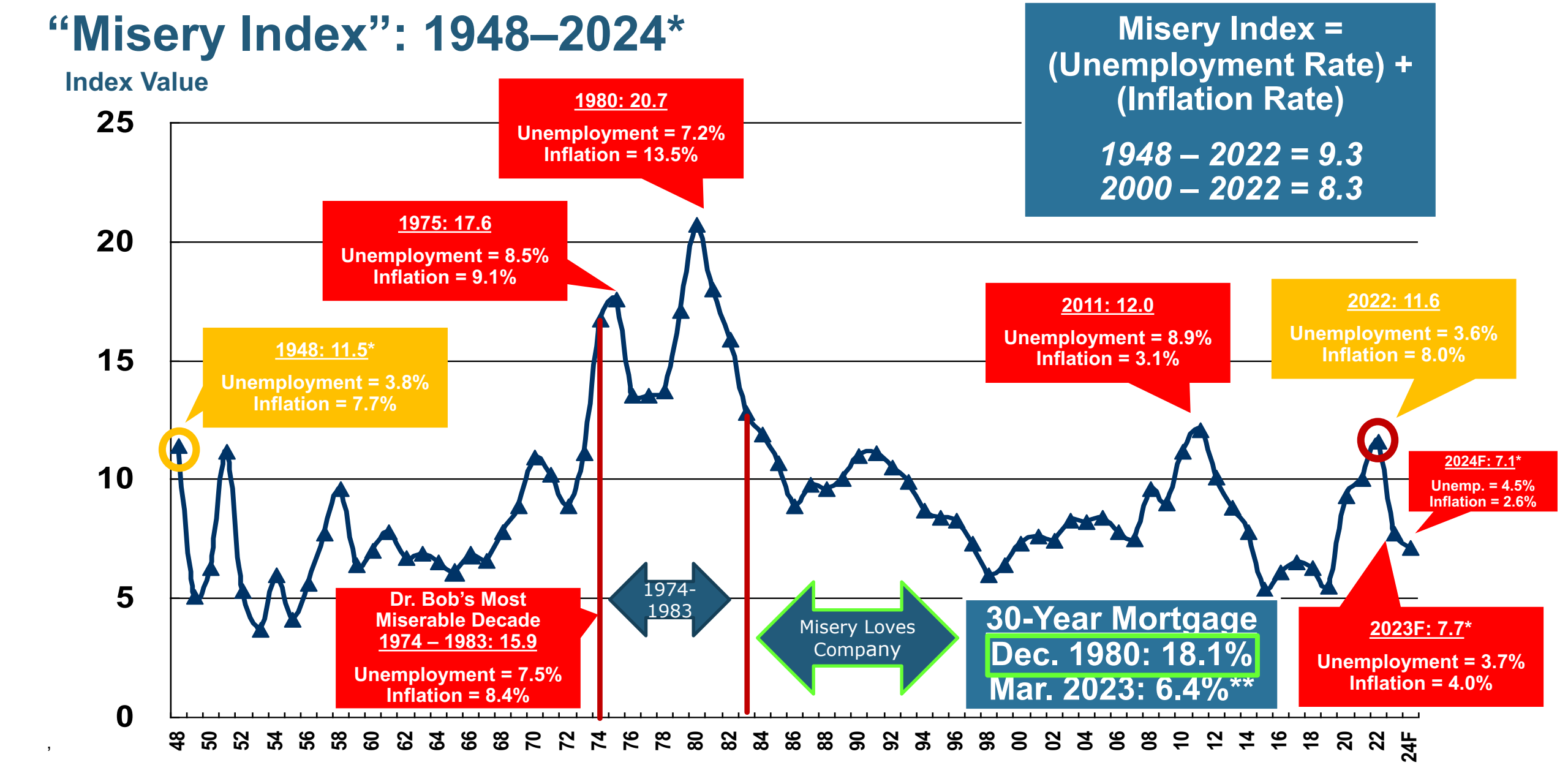
A Quick Review of Economic History Is Helpful

Inflation and Unemployment Rate, 1948–2024F*



*2023-24 forecast of unemployment and inflation rates based on Wells Fargo Securities forecasts (6/23).
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

“Misery Index”: 1948–2024*



*Estimated based on Wells Fargo Securities forecasts (6/23).
**As of 3/28/23 based on Freddie Mac data.
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

Legal System Abuse (Social Inflation) & Litigation Trends

Rising Litigation Costs Are a Concern for Businesses Large and Small—*and Their Insurers*

Major Driver of Rate Across Multiple Lines

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Social Inflation: Many Interrelated Causes, Difficult to Manage

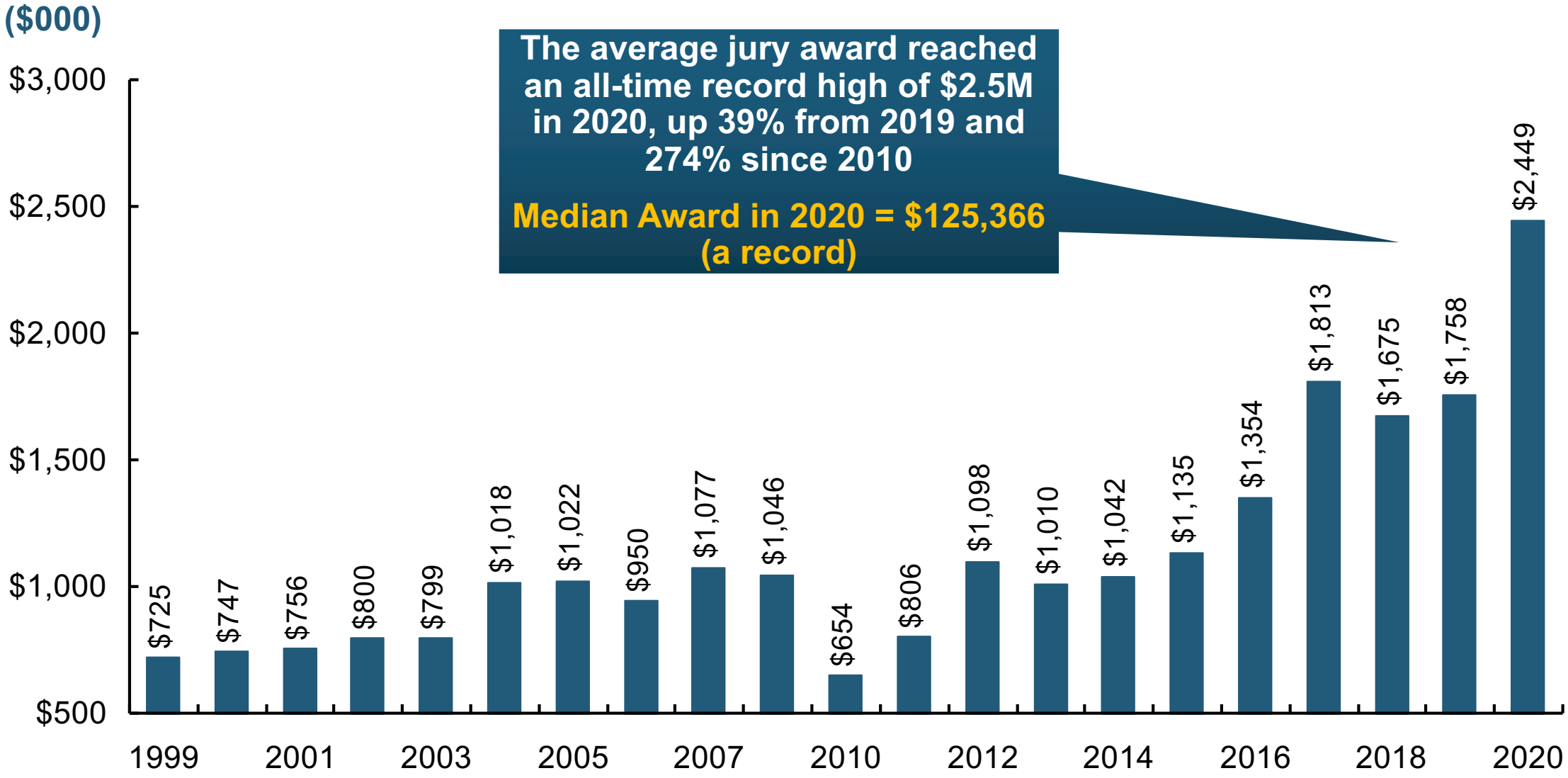
INSURANCE CLAIM COSTS

- Increasing Propensity to Sue
- Size of Jury Awards
- Courts/ Juries Favoring Plaintiffs
- Growing Distrust of Large Corps.
- Litigation Financing
- Aggressive Plaintiff Bar Ads
- Changes in Regulatory and Legal Environment Bar Ads

Applied to a seemingly limitless number of issues, these drivers are pushing tort costs (and therefore claim costs upward)

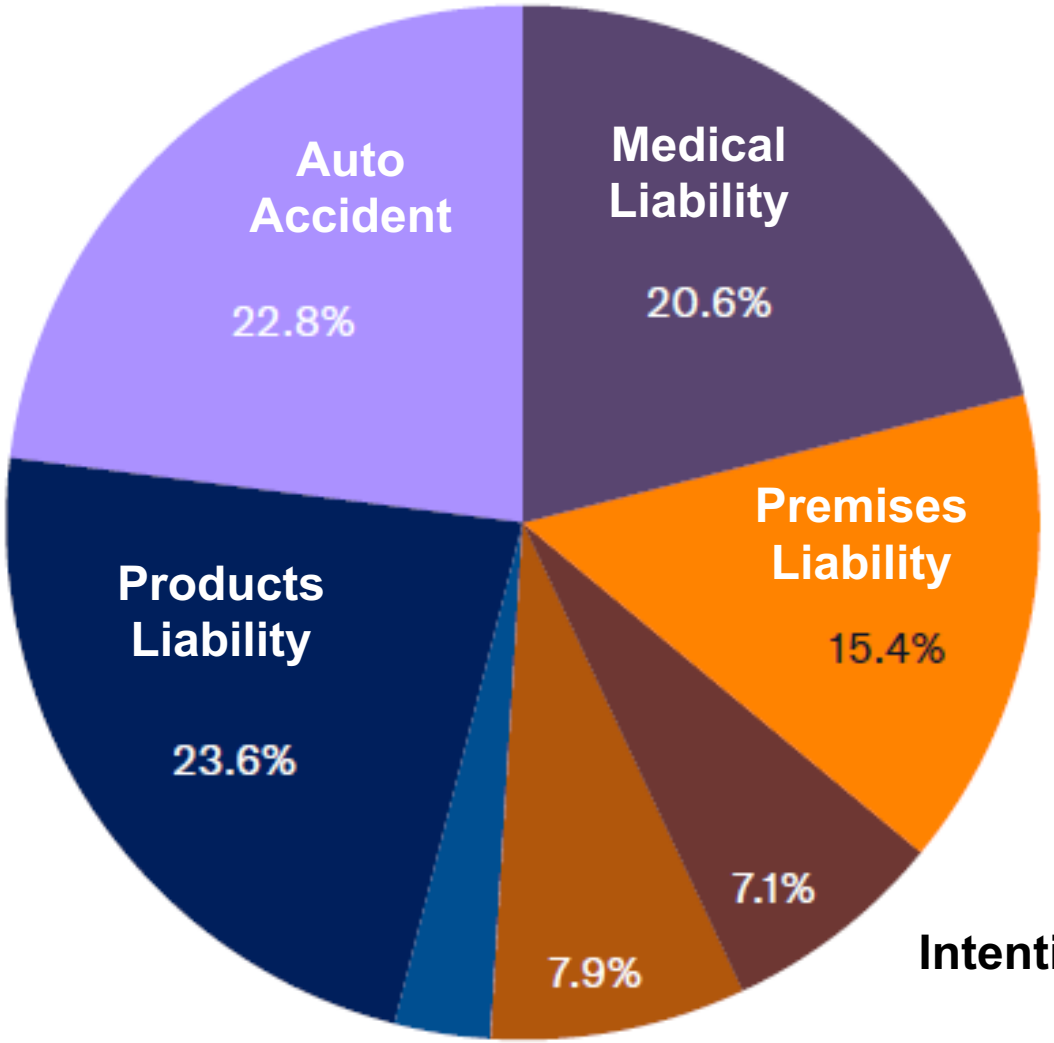
Source:Risk and Uncertainty Management Center, Univ. of South Carolina, adapted from Verisk “Social Inflation” presentation (2020).

Average Jury Awards, 1999 – 2020 (latest available)



Source: Jury Verdict Research; *Current Award Trends in Personal Injury* (61st Edition), Thomson Reuters; Risk and Uncertainty Management Center, Univ. of South Carolina.

Nuclear Verdicts by Case Type: 2010 – 2019*



Products, Auto and Medical Liability account for 2/3 of nuclear verdicts

**The ILR defines a nuclear verdict as a jury verdict of $10M or more.*

Source: US Chamber of Commerce Institute for Legal Reform (Sept. 2022), "*Nuclear Verdicts: Trends, Causes and Solutions,*" accessed at: https://instituteforlegalreform.com/research/nuclear-verdicts-trends-causes-and-solutions/. Risk and Uncertainty Management Center, Univ. of SC.

SUMMARY

- **The P/C Insurance Industry Remains Strong, Stable, Sound and Secure**
  - **Auto lines, property and reinsurance segments are stressed but not impaired**
- **A Shallow Recession is Increasingly Likely Beginning in early 2024**
- **Asset Price Volatility Will Persist as Inflation Uncertainty**
- **Banking Sector Problems Have Dissipated With Few Direct Impacts on P/C Insurers**
- **Higher Interest Rates Provide a Modest Tailwind for Investment Income**
- **Inflationary Pressures Will Persist in 2023, But Will Subside (Peak Reached in June 2022)**
- **Loss Cost Challenges Remain but Should Ease in 2023—Inflation, Supply Chain**
- **Legal System Abuse Issues Remain a Long-Term Challenge**

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Thank you for your time and your attention!

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Download at www.uscriskcenter.com